

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
CITY OF ADRIAN, MICHIGAN

DEPARTMENT OF FINANCE

For the Fiscal Year Ended June 30, 2008

Prepared by the Finance Department

JEFFREY C. PARDEE, C.P.F.O., Director of Finance

CINDY L. PRUE, Assistant Director of Finance

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* CITY OF ADRIAN	County* LENAWEE	Type* CITY	MuniCode* 46-2-010
Opinion Date-Use Calendar* Sep 25, 2008	Audit Submitted-Use Calendar* Nov 21, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue: ?	\$ 11,259,381.00
General Fund Expenditure: ?	\$ 13,356,950.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance: ?	\$ 5,867,914.00
Governmental Activities Long-Term Debt (see instructions): ?	\$ 2,426,798.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* GARY	Last Name* OWEN	Ten Digit License Number* 1101008646		
CPA Street Address* 121 N MAIN ST	City* ADRIAN	State* MI	Zip Code* 49221	Telephone* +1 (517) 265-6154
CPA Firm Name* ROBERTSON, EATON & OWEN	Unit's Street Address* 121 N MAIN ST	Unit's City* ADRIAN	Unit's Zip* 49221	

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Michigan 49221-2773

100 E. Church St . Adrian,

City Administrator

(517) 263-2161

Fax (517) 265-8133

COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

Transmittal Letter

October 16, 2008

To the Citizens of the CITY OF ADRIAN, MICHIGAN,
Honorable Mayor and Members of the City Commission:

Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)

Michigan State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the CITY OF ADRIAN for the fiscal year ended June 30, 2008.

In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. This accounting pronouncement has had a substantial impact on both the format and content of the information included in this report, the fourth Comprehensive Annual Financial Report (CAFR) prepared under the requirements of the new reporting model. Tom Allen, GASB Chairman stated, "This is the most significant change to occur in the history of governmental financial reporting."

The new financial reporting model requires general-purpose governments to present the following basic financial statements and Required Supplementary Information (RSI) in order for the financial statements to be in conformance with generally accepted accounting principles (GAAP):

- Management's Discussion and Analysis (MD&A)
- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

- Required Supplementary Information (RSI)
- In addition, the State of Michigan requires that individual fund columns be presented for all funds and component units.

The new financial statement includes a discussion of the City's financial condition and outlook. The new *Management Discussion and Analysis* (MD&A) precedes the full-accrual "*Government-wide Financial Statements*" that are intended to show whether today's taxpayers have paid the full cost of the services received. These full-accrual statements are followed by a revised version of the financial statements previously reported, "*Fund Financial Statements*", which report governmental activities on the "modified accrual" basis of accounting, followed by *Footnote Disclosures* and *Required Supplementary Information* (RSI).

The financial statements include several tiers of information, some of which are familiar and some of which are new. The MD&A, a narrative discussion preceding the government-wide financial statements, will analyze:

- The City's financial performance for the year
- A comparison of the current year to the prior year
- A discussion of whether the City's financial position has improved or deteriorated during the year
- Significant changes in individual funds
- Significant budget variances
- A brief explanation of capital asset and long term debt activity
- Any likely future significant changes in financial position or operating results.

The second tier of information includes the two new full-accrual "*government-wide*" financial statements prepared using the economic resources measurement focus; the **Statement of Net Assets** and the **Statement of Activities**. These government-wide financial statements now include all capital assets, including infrastructure, as well as the cost of asset purchases over the years they are in service (i.e., depreciation). These statements also include all long-term liabilities, including employee compensated absences. Compensated absences are recognized as expenses in the year that the employees' services are rendered, since this is when the employees earn them. For example, governments are now required to charge the cost of employee benefits, including sick and vacation pay, over the years that employees are rendering services (rather than decades later, when those benefits are typically paid).

The financial statements maintain some familiarity in the third tier, the “Fund” financial statements. The traditional modified accrual reporting of individual governmental funds has been retained. The GASB believes that this is the preferable method to show budgetary accountability. Significant individual funds (referred to as “Major” funds) are presented separately on the statements preceding the footnotes. The fund-based statements are separated into three sections:

- governmental funds
- proprietary funds (e.g., water and waste water funds), and
- fiduciary funds (e.g., Agency Fund).

The government-wide and fund financial statements continue to require various note disclosures to supplement the basic financial statements.

Required Supplementary Information (RSI), presented after the notes to the financial statements, include budgetary comparison schedules for the debt service and non-major special revenue funds (e.g., Community Development Fund). Budget to actual comparisons include the original budget, as well as the final amended budget.

The Comprehensive Annual Financial Report consists of management’s representations concerning the finances of the City of Adrian. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Adrian has established a comprehensive internal control framework that is designed to both protect the government’s assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Adrian’s financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Adrian’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Adrian’s financial statements have been audited by Robertson, Eaton & Owen, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Adrian for the fiscal year ended June 30, 2008, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial

statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Adrian's financial statements for the fiscal year ended June 30, 2008, are fairly presented, as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Adrian was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Single Audit Report is incorporated into the Comprehensive Annual Report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Adrian's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Adrian, founded in 1825, incorporated in 1853 and re-chartered in 1957, is the county seat of Lenawee County, one of the richest agricultural counties in Michigan. The population of the City of Adrian in 2000 was 22,215, with moderate growth in population since then. Adrian is located 33 miles northwest of Toledo, Ohio, 37 miles south of Ann Arbor and 59 miles southwest of Detroit, and is served by Michigan highways US223, M52 and M34. The City of Adrian is empowered to levy a property tax on both real and personal properties located within its boundaries. The City is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Commission, in accordance with the rules and regulations of the State Boundary Commission. In recent years the City boundaries have expanded through annexation by 1.2 square miles, from 6.9 square miles to 8.1 square miles.

The City of Adrian has operated under the commission-administrator form of government since 1957. Policy-making and legislative authority are vested in a governing commission consisting of the mayor and six other members elected at-large on a non-partisan basis. The City

Commission is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the government's Administrator, Attorney, and City Clerk. The City Administrator is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Commission members serve four-year staggered terms, with three Commission members elected every two years. The mayor is elected to serve a two-year term.

The City of Adrian provides a full range of services, including police and fire protection, sanitation services, construction and maintenance of highways, streets and other infrastructure, Dial-A-Ride transportation and Community Development services, as well as recreational activities and cultural events. In addition to general government activities, the City Commission is financially responsible for the activities of the water and sewer systems, the City of Adrian Building Authority, a blended component unit; therefore, its activities are included as an integral part of the reporting entity. Also included in the City's financial report are the Downtown Development Authority (DDA-TIF), the Local Development Finance Authority (LDFA) and Brownfield Redevelopment Authority (BRA), as discreetly presented component units. However, the Adrian Board of Education and the Bixby Medical Center have not met the established criteria for inclusion in the reporting entity and, accordingly, are excluded from the financial report.

FACTORS AFFECTING FINANCIAL AND ECONOMIC CONDITION

The annual budget serves as the foundation for the City of Adrian's financial planning and control. All departments of the City government are required to submit requests for appropriation to the City's Chief Fiscal Officer on or before the last Tuesday in February each year. The City Administrator uses these requests as the starting point for developing a proposed budget. The Recommended Budget is presented to the City Commission for consideration at the first Commission Meeting in April. The Commission is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than the second week in May. The appropriated budget is prepared by fund (e.g., General Fund), department (e.g., Parks and Recreation) and activity (e.g., Swimming Pool). Transfers of appropriations within and between departments require the special approval of the City Commission in the form of a budget amendment. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General

Fund, Major and Local Street Funds, these comparisons are provided on Pages 57-61 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on Page 98.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific economic and demographic environment within which the City of Adrian operates.

ECONOMIC OUTLOOK

National Economy – In recent months, it seems that a day never goes by without more bad news about the mortgage crisis in America. The home mortgage market began to unravel in August 2007, and continues to do so nearly a year later. We all know that falling house prices are contributing to the pain and depth of the mortgage market dilemma; but that's not the only cause of the problem. The major cause was bad lending practices. Home mortgages were made available to borrowers who could not have qualified for such a loan under normal circumstances.

Some mortgage originators – like IndyMac Bank, which closed its doors early this July and was taken over by the FDIC – didn't seem to worry about the credit worthiness of the home buyers to whom they were lending. Like many other companies specializing in mortgage origination, most of their loans were repackaged and sold to "investors" as insured collateralized debt obligations and other structured debt securities. These investments received the highest quality credit ratings (AAA) from the bond rating companies. In reality, these ratings were only as strong as the bond insurance companies that guaranteed the mortgage payments. Now, many of those bond insurance underwriters are suffering from the weight of home foreclosures, and the credit ratings of these insured mortgage pools have been downgraded to lower levels.

Zero-down-payment loans, as well as interest-only loans with temporary "teaser" rates, were used to sell expensive homes to homebuyers who clearly could not afford them. Since home prices had been rising steadily for several years, some homebuyers were speculating that they could "flip" the property (make a sale in a short period of time at a big profit). Once home prices peaked in 2006 and then began to decline in 2007, many borrowers found themselves in what's known as an upside down position. That occurs when the market value of their house falls below the amount they owe on their mortgage. Once that happens, it becomes

more likely that the borrower will stop making monthly payments and return their house keys to the lender.

The Federal Home Loan Mortgage Company, known as "Freddie Mac", and the Federal National Mortgage Association, known as "Fannie Mae", are the two largest quasi-governmental mortgage agencies. Fannie Mae was created in the 1930s to facilitate the ownership of homes by buying mortgages from banks. Although Fannie Mae and Freddie Mac are private companies with operating profits, these government sponsored enterprises (GSE) were established by federal law and receive special privileges. Most importantly, their GSE status, with its implied government backing, allows them access to lower-cost funding. In recent months they have come under increasing investor pressure by shareholders because of fears that vast mortgage holdings, now totaling more than \$5 trillion, will result in substantial losses.

The quality of Freddie's and Fannie's mortgages is much stronger than those owned by bankrupt entities such as IndyMac. They are federally regulated and buy only mortgages in which borrowers made substantial down payments and had their income documented. Since Freddie Mac and Fannie Mae have maintained reasonable credit standards throughout the recent housing boom, their default rate has remained reasonably low.

The Federal Reserve Bank and U.S. Treasury recently announced their strong support for Freddie and Fannie, affirming that both companies will receive all the federally-backed funding they need to ride out the current mortgage market turbulence. Therefore, their ability to fulfill their mission as mortgage providers appears secure.

The Commerce Department recently reported that the economy continued to stagnate during the first half of 2008, with a sharp pullback in consumer spending the primary factor at play. Pressures on households in which cash is tight appeared to weigh significantly in the calculations of the Federal Reserve as it rolled back interest rates in late April for the seventh time in eight months in a bid to prevent further falloff in the economy. The Fed made clear, though, that investors and borrowers should not expect another drop in interest rates anytime soon. In the statement accompanying their action, policymakers said they believe that with the short-term rate at two percent, they had already unleashed enough economic stimulus to "help promote moderate growth."

With the overall economy growing at a less than one percent, consumer spending, likewise, has advanced at a meager one percent, down sharply from the 2.9 percent and 3.1 percent gains for 2007 and 2006,

respectively. It is the weakest showing since 2001, the last time the economy was ensnared in a recession. As real estate prices plunge, so does the ability of homeowners to borrow against the value of their homes, crimping a major artery of spending. As banks grow tighter with their dollars in a period of uncertainty, families are running up against credit limits, forcing many to live within their incomes. And as companies layoff employees and cut working hours, paychecks are effectively shrinking. Average hourly earnings stand at \$17.88, with weekly earnings at \$602.56, up only 3.1 percent from a year ago, which compares to an inflation rate of 3.5 percent, effectively resulting in a net reduction in purchasing power. The economy has shed jobs each month this year – 463,000 in all. The unemployment rate stands at 6.1 percent, nationally.

Our region, of course, is not immune from the impact of the mortgage credit crisis. Existing home sales in the Midwest tumbled 17 percent between July 2007 and July 2008, while the median price in the region inched up to more than \$175,000, according to the National Association of Realtors. The largest price drop was in Detroit, where the sinking economy and skyrocketing foreclosures helped push the median price down 36 percent to \$81,000.

Until last December, the Fed effectively had only the funds rate with which to speed up or slow down economic activity and keep the financial system running smoothly. If policymakers decided that the economy was stalling, they would drive down the funds rate by pumping credit into the system. The theory was that, as bank's borrowing cost fell, they would lend at lower rates. This would spur growth by making it cheaper for home buyers to take out mortgages and companies to obtain loans to expand their businesses.

But when policymakers turned to funds rate cuts in the midst of the subprime mortgage debacle and housing market meltdown last fall, they discovered that this economic management tool had been rendered essentially powerless. Policymakers reacted by creating cash auctions to lend to banks, instead of waiting for them to lend to each other. They reacted next by setting up a system of direct loans for the major nonbank investment firms with which the Fed deals, pumping over \$250 billion of new liquidity into the economy, thereby providing more credit for consumers and businesses.

In recent months, the Fed has issued tough regulations for home mortgages, created a host of new tools for managing the economy and orchestrated the takeover of investment bank Bear Stearns. In addition, the Fed has joined with the Office of Thrift Supervision and the National Credit Union Administration in proposing new credit card rules that

would label as “unfair and deceptive” such practices as jacking up interest rates on balances that were accrued under lower rates and charging late fees without giving consumers a reasonable amount of time to make payments. The new rules could take effect by year’s end.

On the positive side, as gasoline prices climbed to over \$4.00 per gallon the traffic death toll headed to the lowest levels since 1961, when 36,200 died. The price of gas has significantly affected driver behavior – altering not only how much they drive, but where, when, what and how they drive.

The Bloomberg Economic Forecast, dated May, 2008, follows:

		Forecast	
	<u>Current</u>	<u>Dec. 31-08</u>	<u>June 30-09</u>
GDP Growth	1.0%	0.5% - 1.5%	0.5% -1.5%
Consumer Prices:			
• Incl. Food & Energy	5.0%	3.5% - 5.0%	2.5% -4.0%
• Excl. Food & Energy	2.4%	2.0% - 3.5%	2.0% -3.5%
Cost per Barrel of Oil	\$ 118	\$115 - \$135	\$95 - \$115
Unemployment Rate	5.7%	5.3% - 5.8%	5.5% -6.0%
Fed Funds Rate	2.0%	2.0% - 2.5%	2.0% -2.5%
30-Year Treasury	4.35%	4.85% - 5.15%	4.65%-4.95%

Regional and State Economy – The following prediction was included in last year’s transmittal letter – “Michigan’s image, already in tatters from the troubles caused by its shrinking manufacturing base and a budget impasse that wasn’t resolved until a temporary government shutdown, isn’t going to recover any time soon.” Unfortunately, this dire prediction has become reality, as thousands of summer job seekers who couldn’t find work helped push Michigan’s jobless rate from 7.2 percent a year ago to 8.9 percent now, the highest monthly mark in the state since 1992 and the highest in the nation.

The state’s overall civilian labor force includes just over 5 million people. Michigan has had the nation’s highest annual average unemployment rate since 2006, in part because the struggling domestic auto industry has been a drag on the state economy. Michigan has also been hurt by the national economic slowdown.

The era of 8 percent or higher jobless rates in Michigan could last a while. Economists with legislative fiscal agencies estimate Michigan’s unemployment rate will average 8.4 percent in 2009 and are unsure the state economy will turn around even in 2010. Governor Jennifer

Granholm indicates that job creation efforts will continue to be a top priority, citing work on an economic stimulus package targeted to job creation.

In the meantime, the U.S. Census Bureau has reported that Michigan was the only state where poverty rose and incomes fell last year. Michigan's poverty rate was 14 percent in 2007, up from 13.5 percent in 2006 and a full percentage point above the national rate, which was virtually unchanged during the same period. The state's rate has grown steadily since 2000, when it was just above 10 percent. The number of people in poverty increased by 45,000 during 2006-07. The statistics illustrate the uniqueness of Michigan's economic swoon and the extent to which the auto industry's downward plunge has caused a ripple effect across the state.

The 2007 median income in Michigan was \$47,950, down 1.2 percent or \$596 from the 2006 median of \$48,546. The state's nationwide ranking slid from 24th to 27th. The Governor has emphasized diversifying Michigan's economy, promoting growth of industries such as defense contracting, alternative energy and film production. Lawmakers, this year, boosted tax incentives for businesses adding jobs. Twenty new business expansions or relocations were recently announced that are expected to bring \$658 million in new investment to the state. Whether such improvements will be enough to offset continued gloomy news from the automotive sector remains to be seen.

The 2007 statistics, reported in the Census Bureau's annual American Community Survey, offer little reason for optimism. They also showed Michigan's rate of "extreme poverty" – a yearly income of less than half the poverty threshold, or \$10,325 for a family of four – jumped from 6 percent in 2006 to 6.5 percent last year. Eight years ago, the rate was 4.8 percent. People with incomes that low are likely living in unsafe conditions. Children probably are not getting enough healthy food to eat. People may be living in shelters. Seniors are likely skipping dosages of medication to make ends meet.

Michigan workers without a high school diploma have an unemployment rate at least four times higher than workers with a college degree, according to the Michigan League for Human Services Report. The unemployment rate for Michigan residents without high school diplomas hit 20 percent in 2007. The jobless rate for those with a bachelor's degree or higher was less than 5 percent. Income levels, likewise, are much higher for workers with college degrees.

The state's 2007 high school graduation rate was calculated at 75 percent by Michigan's Center for Educational Performance and Information. For the first time, the rates reflect the percentage of students getting a regular diploma within the traditional four-year high school timeframe, a change required by No Child Left Behind rules. That means fewer high schools now are meeting the No Child Left Behind requirement of an 80 percent graduation rate. On the reverse side, Michigan has a statewide high school dropout rate of about 15 percent. To be competitive, Michigan needs the best educated work force in the nation, and the fact that one in every four high school students is failing to graduate on time is totally unacceptable.

An estimated 26 percent of Michigan's population aged 25 and older had at least a bachelor's degree in 2006. That's below the national average of about 28 percent and far below the national leader, Massachusetts, where more than 40 percent of people in that age group had a college degree. Massachusetts had a jobless rate of 5.1 percent in July, better than the national average of 5.7 percent.

Michigan officials are taking steps to try and increase the number of high school and college graduates. The state has started phasing in tougher high school graduation standards in the hopes that more students will become better prepared and willing to go to college. The tougher standards begin with the graduating class of 2011, entering its sophomore year this fall.

Unfortunately, lower tax revenues will force some trimming in the state budget being worked on for the next fiscal year. The state likely is facing a shortfall of \$170 million to \$350 million in the budget year that starts October 1. That could mean K-12 schools, universities and some state programs may not get as much as the Governor has proposed.

Revenues are falling short of forecasts for the following reasons:

- The depressed housing market is affecting how much the state collects through the state education tax, real estate transfer tax and sales tax;
- The slowing national economy is affecting Michigan's economy, especially the auto industry, decreasing employment and tax payments in the state;
- Casinos in Detroit are paying a lower tax rate as they open permanent facilities;
- The new earned income tax credit, which helps low-income workers, will lower revenues by \$133 million in the next budget year;

- A new refundable tax credit aimed at boosting the film industry will cost the state at least \$110 million and possibly more next budget year;
- The federal stimulus package, although anticipated to increase sales tax, casino tax and lottery revenues by around \$72 million this year and \$31 million next year as people spend their rebate checks, harbors a provision that allows businesses to depreciate equipment more quickly, costing the state around \$31 million this year and \$96 million next year.

Among the possible targets for trimming are state universities and community colleges, originally proposed to get a 3 percent increase starting October 1. K-12 school districts also were in line to get a 3 percent increase, but also are likely to get less. Districts now get at least \$7,204 per pupil. The Senate already has approved giving K-12 districts a smaller increase than originally recommended - \$71 to \$142 per student, rather than \$108- \$216.

State lawmakers have nearly completed a budget with considerably less drama than last year, when wrangling over a tax increase brought Lansing to a standstill and seriously eroded citizen faith in state leaders. This year's reasonable and timely decisions on revenue sharing and education point to a more rational and functional government. However, the new budget, for fiscal year beginning October 1, continues a familiar pattern: tinkering with the externals of state government without delving into its broken machinery.

This year's \$44 billion budget included a \$400 million shortfall that had to be made up. Proposed increases in funds for local governments and schools had to be trimmed back. Cities and townships will see a 2 percent increase in revenue sharing instead of the governor's proposed 4 percent hike. State universities will receive a 1 percent bump instead of 3 percent. Corrections took a \$39 million cut this year, but that doesn't begin to trim the \$2 billion total that is spent on prisons - 20 percent of Michigan's general fund. Michigan continues to incarcerate more people than other Midwestern states, primarily because it keeps them longer behind bars. Locking hardened felons behind bars must remain a priority for the larger community and the budget, and a core function of state government. Continuing to imprison people who pose no real threat to society, however, makes no sense. If lawmakers are serious about trying to avoid the yearly spending squeeze, this is one area of savings they must attack, and soon.

In addition, lawmakers should reform health care and pension costs for teachers and state employees. The costs continue to be a major drag on taxpayer wallets and eat up an increasing share of funds that could go more directly to classrooms and students. Also, Michigan needs to double its spending on roads and bridges or many will keep deteriorating and become unsafe. Approximately \$6.1 billion per year is required for basic improvements. Michigan roads are worse than those in most other states and will become increasingly congested, unplowed, dangerous and riddled with potholes unless more money is invested. Michigan's failure to maintain its roads is leading to a declining quality of life and reduced economic competitiveness. Starting in 2010, the state and local governments will lose an average of \$950 million a year for road projects because the state won't be able to afford upfront spending required to get matching federal dollars. Legislation to boost existing sources of revenue – the 19-cent-a-gallon gas tax and vehicle registration fees – has received little interest from either the governor's office or the legislature.

These are the kinds of big changes lawmakers will need to make if they want to avoid the cyclic pain that defines state budgets. A recent report by the nonpartisan Citizens Research Council found that if tax and spending policies continue unchanged, Michigan will face a cumulative deficit of nearly \$10 billion by 2017. Nothing in Lansing's current spending plan addresses that long-term problem.

To end on a positive note, Michigan has entered into the Great Lakes Water Compact, an agreement between the eight Great Lakes states and two Canadian provinces to prohibit wholesale removal of water from the Great Lakes basin, which spans 700 miles north and south, and 900 miles east and west. It also creates tighter regulations on the water's use. Now that Michigan is the final state to approve the deal, it moves on to Congress which must approve such international treaties, and then requires signature by the president.

Local Economy - Adrian community leaders have been on the cutting edge of attracting and promoting commerce throughout the City's history, from establishing the first railroad East of the Alleghenies in 1836 to obtaining one of the first Michigan Economic Growth Authority (MEGA) tax credits for the Solvay Automotive Project in 1995. The Adrian area serves as the corporate headquarters for several businesses including Merillat Industries (a division of Masco). The Gleaner Life Insurance Society, the Kapnick Insurance Company and others.

The employer base remains diversified with several less recession-sensitive employers located in the community including governmental (City and County governments and a State Police Post) educational (Adrian College, Siena Heights University, Jackson Community College,

Adrian Public Schools and the Intermediate School District, as well as the ISD-Vocational Education Center) and institutional organizations (Bixby Medical Center and Michigan Correctional Facility).

Both of Adrian's private colleges are reporting increased enrollment this year. With 559 students in its freshman class and an additional 48 transfer students, Adrian College grew to a total of about 1,470 students. That's an increase from about 1,300 students last fall, and a jump of more than 50 percent from three years ago, when the college's enrollment bottomed out at 972 students. This year's freshman class is the college's largest ever. Siena Heights University also saw its enrollment increase this year. Undergraduate enrollment at the school's Adrian campus went from 839 students to 938, an increase of almost 100, while the number of graduate students on campus grew from 159 students to 173.

Adrian College has been named an "up-and-coming" college in the annual America's Best Colleges guide published by U.S. News & World Report. The "up-and-coming" designation indicates schools that are making substantial improvements in quality. Adrian was one of five baccalaureate colleges in the U.S. to be on the magazine's "up-and-coming" list, and the only one in the Midwest.

Adrian College also ranked 22nd in the Midwest on U.S. News & World Report's list of the best baccalaureate colleges. This is the second year Adrian has been ranked on the magazine's list; its inclusion came after the school was reclassified last year. It had previously been considered a liberal arts college, a category that also includes Hillsdale College, Hope College in Holland and Albion College. Now considered a baccalaureate college, meaning that fewer than half its degrees are granted in liberal arts disciplines, Adrian is now compared against schools like Taylor University in Upland, Indiana and Ohio Northern University in Ada, Ohio.

With the multiple higher education institutions of Adrian College, Siena Heights University and Jackson Community College, the City of Adrian benefits economically in many ways. The most obvious, of course, is payroll, health care, corporate purchases made from local businesses, personal purchases made possible by the salaries to faculty, staff and administrators, jobs provided to area residents, and more. The students impact area businesses both by serving in internship positions and filling open part-time job opportunities. In addition, they purchase everything from housing, gas for their vehicles, groceries, meals in restaurants, entertainment, dorm and apartment furnishings, movies, clothing, books, gifts and more.

Adrian is the core community of the central region of Lenawee County. Its household count increased by over eight percent between 1990 and 2003, growing from 7,479 to 8,111. By the end of 2008, this number is expected to increase to 8,449. If these projections hold, by 2008 a total of 338 new households will reside within the City.

Nevertheless, Lenawee County's economic fortunes are tied to the auto industry as well. The unemployment rate jumped to 11.2 percent in July, the county's highest rate since it rose to 12.7 percent in March, 1991. The jump into double-digit unemployment resulted from annual temporary layoffs in the auto industry being combined with a slow construction season and weakness in the leisure and retail business climate. The number of employed workers in the county slipped by 1,315 during the month, to a total of 44,663, down 1,650 workers from a year ago. Lenawee County was particularly hard hit, moving from 60th place in employment among Michigan's 83 counties in June to 65th place in July. All counties in Michigan saw an increase in unemployment in July, including Hillsdale County (12.7 percent), Monroe County (10.8 percent), Jackson County (9.7 percent), and Washtenaw County (6.9 percent).

The phased shut-down of Dura Corp. in Adrian is impacting Lenawee County's employment statistics with the elimination of 250 jobs. On the other hand, one positive sign is the opening of the NextDiesel biodiesel processing plant, also in Adrian, which employs 25 people, with plans for future expansion. Also, Venchurs Inc., plans a \$21 million expansion of its Adrian parts packaging, warehousing and distribution business. A recently approved state tax credit will enable the company to add 50 workers between now and 2010, plus 56 more later. An estimated 46 more spin-off jobs will be created locally, according to the Michigan Economic Development Corporation (MEDC).

As an added benefit, the second phase of Venchurs' expansion will include a new corporate office at the old Buckeye Products plant site on Beecher Avenue. Targeted by the Environmental Protection Agency (EPA), federal funds will be used to clean up contamination and help restore the site to safety and productivity. Adrian city officials also have offered possible tax benefits to help with the expansion and the extra jobs at Venchurs, which was founded in Adrian in 1973. The company employs 121 people, plus another 60 contract workers, at six Adrian facilities.

The MEDC recently announced nine other job expansions or relocations to Michigan as a reflection of its job creation efforts throughout the state. Building upon a foundation of assistance to current businesses in helping them grow and expand, the MEDC has identified four key industry clusters as priority focus areas. Alternative Energy, including wind power, battery technology and solar, will all play a major role for growth in our geographic location. Lenawee County is perfectly suited to be a major player in this arena; we already have a great foundation with the biodiesel facility in Adrian, the ethanol facility in RIGA Township and the insightful leadership of the Lenawee County Agricultural Advisory Committee. In addition, Lenawee County is poised to be a major player in the incredible strides that are being made in the solar and photonics areas. Local chemical companies like Wacker and Silbond are world leaders in silica technology and production, which could be beneficial to those industries. This, coupled with ongoing research and development by the University of Michigan in these areas, could provide partnerships with our local companies.

Life sciences continues to be a strong industry for the state of Michigan and is another area of focus by the MEDC. Research and development in the life sciences area has played a dominant role in the growth around Michigan's three major research universities, Michigan State, Wayne State and the University of Michigan. Not only drug and therapy discovery but medical device discovery has been a great success in the life science arena. Lenawee can be a strong contributor in this area due to its manufacturing know-how and quality of work force.

The third focus for the state is national/homeland security, one of the largest areas for federal dollars, and the state and Lenawee County have not taken full advantage of the opportunities for local companies to participate. The MEDC has established an office of homeland security procurement that is being led by retired Marine Corps Major General Bradley Lott.

The state's final area of focus is high-tech manufacturing and R&D. It is true that Michigan has lost a great number of automotive manufacturing workers but Southeast Michigan continues to be the world leader in automotive research and development. There are more high-technology R&D facilities in Southeast Michigan than in all of the remaining 49 states, Mexico and Canada combined. Southeast Michigan has more engineers per capita than anyplace else on earth, and if you want to introduce an automotive vehicle into the U.S. market, it has to go through evaluation, testing and approval at the U.S. EPA center in Ann Arbor.

As a cornerstone to these economic development initiatives, MEDC emphasizes one major requirement for success: collaboration – collaboration between communities, collaboration between organizations and collaboration on having one voice for economic development within the region. Once collaboration has been initiated, a single business plan for success needs to be developed and implemented. Without a plan and collaboration, the MEDC will not spend state tax dollars in Lenawee County. Unless a local community is willing to partner with incentives, the MEDC will not participate with state funding of local development projects.

Long Term Financial Planning – Included with the Comprehensive Annual Financial Report for the first time is the City's Strategic Action Plan. A financial planning process that is well-integrated with other activities of government, such as land use and physical development planning and management functions, provides better financial and program decisions and leads to improved governmental operations. Consistent with the recommendations of the National Advisory Council on State and Local Budgeting (NACSLB), the *CITY OF ADRIAN'S STRATEGIC ACTION PLAN* is presented below.

The Strategic Action Plan is the product of several strategic planning sessions, conducted during calendar year 2007, by the City Commission and City Administration, including City Department Heads, facilitated by Dr. Joseph Ohren, Professor for the Institute of Community and Regional Development at Eastern Michigan University (ICARD/EMU). The initial session focused on decision-making processes and emerged with a list of recommended strategies for strengthening our work as a leadership team on behalf of the Adrian community. Subsequent sessions dealt with performance of an environmental scan (identifying strategic issues by assessing our strengths, weaknesses, opportunities and threats), articulating a list of priority goals, and developing action strategies for implementing those goals. Also included are a Statement of Values, Vision Statement and Statement of Vision and Purpose.

All of the goals are considered of equal priority, however, the action strategies are designated either *High Priority* or *Priority When Resources are Available*, thereby providing an action agenda to be considered when formulating the FY2008-09 Annual Operating Budget. Development of future Strategic Action Plans will involve the active participation of the Adrian City Planning Commission.

CITY OF ADRIAN STRATEGIC ACTION PLAN

STATEMENT OF VALUES

The City of Adrian, Michigan values:

- Active citizen involvement in determining the direction of City government and the public services it provides;
- Respect for the individual voice and service for the common good;
- A responsive and responsible public service delivery system;
- Positive change, innovation and creativity;
- Well-trained employees committed to excellent customer service;
- Respect for our heritage and cultural diversity.

VISION STATEMENT

The City of Adrian aspires to be a hospitable and pleasant community that nurtures its diverse, natural, historical, cultural and social assets in order to foster a safe, clean, prosperous, attractive place in which to live, work, grow and play.

STATEMENT OF MISSION AND PURPOSE

To provide efficient and effective City services through comprehensive planning based on long-term systematic principles that foster an open, honest, responsive government.

Goal: Strengthen city finances by insuring long-term sustainability

High Priority

1. Explore alternatives for increasing revenues. For example: analyze current fee schedules and consider fees and charging policies.
2. Develop cost-sharing pricing strategies to reflect true costs of services utilized by nonresidents.

3. Complete a debt capacity analysis for all proposed debt finance transactions.
4. Prudently invest idle cash, adhering to the following primary objectives, in priority order:
 - Safety – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.
 - Diversification – The investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
 - Liquidity – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
 - Return on Investment – The portfolio shall be designed with the objective of obtaining an optimum rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Priority When Resources are Available

5. Develop a process to address departmental contingency plans for budget reductions.

Goal: Strengthen and diversify the local economy

High Priority

1. Prepare and implement an economic development plan to provide guidance for action, perhaps incorporating some or all of the following elements:
 - Build on a philosophy of “gardening” as opposed to “hunting” in terms of our approach to economic development (develop and support local entrepreneurs).
 - Incorporate attention to neighborhoods and residential development, as well as downtown and commercial redevelopment, as part of the economic development plan.
 - Explore opportunities for partnerships with the Chamber of Commerce and other entities in terms of economic development efforts.

- Identify options and make recommendations on use of incentives.
2. Perform analysis and formulate recommendation regarding the future use of the Local Development Finance Authority.
 3. Implement Vibrant Small Cities Initiative ((VSCI) Grant, including: Infrastructure Projects, Downtown Building Façade Enhancements, Development Regulations Re-Write, Downtown Rental Rehabilitation Projects, Wireless Networks, and Downtown Property Blight Removal.

Priority When Resources are Available

4. Explore development of a fixed route transportation system for the city.
5. Explore use of a Local Development Finance Authority to facilitate development of the Witt and Marvin Farms.
6. Explore opportunities and develop strategy for building partnerships with local colleges to attract business investment and facilitate development, e.g., promote establishment of a new business incubator facility, and assist in curriculum development encouraging entrepreneurship.

Goal: Maintain and improve city facilities and infrastructure to meet long-term needs

High Priority

1. Identify possible public/private partnerships and collaborative efforts in financing and developing facilities; e.g. explore Brownfield development sites for locating facilities to utilize that funding source.
2. Utilize the Capital Improvement Plan (CIP) to prioritize needed facilities and to identify and secure funding for those needs identified as high priority.

Priority When Resources are Available

3. Develop and utilize a Motor Pool Fund as a means for identifying and dedicating resources on an annual basis to replace rolling stock.

4. Develop and implement a public outreach campaign using the CIP to communicate facility needs to residents and build support for long-term action.

Goal: Create and nurture a vibrant and thriving downtown

High Priority

1. Formulate and implement a downtown marketing strategy to attract and retain commercial and residential activities in and near downtown.
2. Aggressively pursue strategies designed to improve the physical appearance of buildings in the downtown, including:
 - A separate capital improvements plan for city facilities
 - Demolition of city property as needed and appropriate
 - An active program of maintenance for city properties and enforcement of codes for private property to insure maintenance
3. Coordinate and collaborate with the Adrian Area Chamber of Commerce to recruit new businesses and retain those in place.
 - Consider creating an incubator facility and program for new downtown businesses
 - Utilize all incentive programs to recruit and retain business
4. Utilize the 2-way traffic study to guide decisions on increasing accessibility to and mobility in the downtown area, implementing recommendations from the study as appropriate.
5. Develop, implement and promote a downtown housing strategy; explore use of upper floors for housing and consider partnering with local colleges to develop housing options.
6. Improve communication and information sharing between City Commission, DDA Board, Brownfield Redevelopment Authority and other stakeholders.

Priority When Resources are Available

7. Pursue grant applications to fund rehabilitation of buildings.
8. Revive downtown festival activity to draw traffic/population into the downtown area.
9. Explore opportunities for public art.
10. Enhance the DDA website and improve digital access.
11. Implement the recommendations from the Downtown Blueprint and/or Anderson Study with respect to the riverfront.

Goal: Pursue opportunities for multi-jurisdictional cooperation and collaboration, where appropriate, in securing effective and efficient service delivery

High Priority

1. Encourage and support convening a cooperation summit, bringing local officials together to explore willingness to engage in identifying and implementing opportunities for multi-jurisdictional collaboration and service consolidation.
2. Develop a mechanism or process to facilitate and encourage on-going communication and dialogue among local government officials in the area.

Priority When Resources are Available

3. Identify services currently being delivered where cooperation/ collaboration might be successful.
4. Conduct systematic cost studies to identify where efficiencies might be obtained through cooperation.
5. Prepare and share information with other local officials and the community at large on the benefits of multi-jurisdictional collaboration and service consolidation.
6. Explore opportunities for intergovernmental agreements for certain facilities or infrastructure used by nonresidents.
7. Explore opportunities for contracting for service delivery with adjacent jurisdictions.

Goal: Preserve and enhance the quality of life services provided by the City

High Priority

1. Explore opportunities for funding from external sources; friends, foundations.
2. Enhance non-motorized transportation (trails, bike paths); re-examine creation of a sidewalk policy.
3. Prepare and disseminate information more actively on the comparative cost of living in Adrian, emphasizing costs, services and quality of life with the rest of the county and in the larger region.

Priority When Resources are Available

4. Seek increased county funding to enhance quality of life for all residents in the county.
5. Collaborate and support local cultural organizations.
6. Explore technology enhancements or upgrades for citizens, such as wireless, city website, etc.
7. Create a program of maintenance for property throughout the City, i.e., code enforcement.

Goal: Improve communications and decision making process for Commission

High Priority

1. Decide on regular work session date each month or quarterly. Develop process for topics of meetings, when held.
 - Purpose: To discuss issues in depth, not necessarily to make decisions.
2. Develop a policy for information sharing between staff and Commission in order to facilitate team-building between and among policy-makers and administration.
 - Subjects may be email sharing, Commission inquiries to staff, etc.

3. Create Ethics Policy for Commission and city employees.
4. Maintain City Strategic Plan on a biennial basis for the purpose of reviewing progress, incorporating new initiatives and formulating action plans upon which the City Budget can be built.

Results of current planning efforts include:

- the continuing upgrade of computer technology throughout the City departments, including Geographic Information System(GIS) enhancements, Library records management system, Accounting and Financial Reporting, Payroll, Assessing and Treasury functions, and City Clerk/Police Department document management system;
- prudent use of the \$18 million Fee Estate endowment to expand passive recreation throughout the community, such as the recent renovation of Burr Ponds;
- A site has been purchased on Logan Street, cleared of fifteen (15) silos, and construction of a new Transportation Center to house seventeen (17) busses owned and operated by the City's Dial-A-Ride System and Lenawee County's Transportation System;
- The City has purchased a site on Miles Drive, including an existing building that will be renovated and serve as a new Parks and Forestry Maintenance facility;
- The City has maintained its status as Tree City U.S.A. by continuing an aggressive community forestry program, which has a street tree inventory in excess of 6,500 existing trees on City right-of-ways, with hundreds more added every year;
- The burial records of the 19,000 former residents interred at the Oakwood Cemetery since 1848 have been computerized to aid visitors and researchers in their identification and location efforts, and a new Pet Cemetery has been added;
- Four years ago, voters approved a two-year fourteen (14%) percent telephone surcharge to support the Lenawee County Central Dispatch to update the 911 system by adding computer-aided dispatch (CAD) Countywide (including the City of Adrian Police and Fire Departments); on the August 8, 2006 ballot a proposal to extend the surcharge an additional ten (10) years was approved;
- The Adrian Public Library has upgraded its computer system with the addition of the Polaris catalog reference system, as well as obtained several private donations to enhance material acquisitions, furniture and program activities, and a significant

facility renovation is underway, including the addition of a coffee shop and teen-reading center;

- An Internal Service Fund (Fire Department Motor Pool) was established in the FY2007-08 Budget to provide systematic funding for future replacement of all rolling stock, as well as operating, maintenance and insurance costs;
- In addition, Fire Department equipment has been upgraded and expanded, using federal grant funds, to better serve homeland security requirements;
- the City Clerk has upgraded the City's election system and has initiated a new electronic archiving system that will facilitate access to City records and save space;
- infrastructure improvements are progressing throughout the City, including implementation of a storm-water separation project, accelerated sidewalk repair and replacement program and many street improvement projects funded by a successful millage renewal of ten (10) years approved by the voters on August 8, 2006, as well as installation of an electric generator to eliminate power interruptions that cause sanitary sewer overflows and plant permit violations;
- the Utilities Department is in the final stages of developing a new ground water source that has the capability of replacing the current surface water source of the City's potable water supply;

The single largest undertaking is the development of a new Downtown City Government Complex, consisting of City Hall, Police Department and Adrian Public Library. After performing an extensive evaluation and financial analysis of the cost of renovating the current City Hall facility, which houses both administrative offices and the Police Department, cost estimates were computed to be in excess of \$9 million. As an alternative, the City has embarked upon a significant capital program to acquire properties downtown and, through a public/private partnership, develop a City Government Complex that would include relocation of City Hall, renovation of the Adrian Public Library and construction of a new Police facility. Thus far, two buildings have been purchased on E. Maumee Street, at a combined cost of \$680,000 (\$140,000 cash and \$540,000 financed through an Installment Purchase Agreement), \$292,000 has been committed to the renovation of the Library, and an agreement has been reached to purchase the former Bank of Lenawee Building from First Federal Bank for \$1,250,000 (likely by Land Contract). Estimated construction and renovation costs approximate an additional \$3 million, bringing total project cost to between \$5 and \$6 million; significantly less than the original estimate of \$9 million to renovate the existing City Hall, which instead will be demolished after being vacated in late 2009. By transferring ownership of all improvements to the private developer, the

project is eligible for Historic Preservation Tax Credits from the State of Michigan, which will result in further reducing the overall cost of the project by between 25% and 40%.

Long-range financial planning, of course, is affected by the City's revenue stream. The negative effects of "Proposal A" of 1994 are finally coming home to roost, particularly for older, low-growth rate communities like Adrian. The full impacts of this proposal on local government service levels were delayed by the unusually long robust economy experienced through the mid- and late 1990s. Proposal A will reduce City General Fund revenues from property taxes by \$657,830 during fiscal year 2008-09 alone. Because of the State's greater reliance on the sales tax as a revenue producer, the slowing economy had a greater relative effect on State shared revenue payments, on which about 20% of the City's General Fund revenues are dependent.

Three important laws passed by the Michigan Legislature this term could have a significant impact on the economy and, therefore, future revenue sharing payments. The first increased the minimum wage from \$5.15 per hour to \$6.95, beginning October 1, 2006, to \$7.15 beginning July 1, 2007, and to \$7.40 beginning July 1, 2008. The second, PA345 Of 2006, the Omnibus Appropriations Act, repealed the Single Business Tax, effective December 31, 2007, eliminating almost \$1.9 billion annually from the state treasury.

On July 12, 2007, Governor Granholm signed into law (PA36 of 2007) a package of bills creating the new **Michigan Business Tax (MBT)**. The tax took effect on January 1, 2008 for all business activity in the state occurring after December 31, 2007.

Michigan's former tax, the Single Business Tax (SBT), was the only value-added tax in the country. Because it was unique, complying with the SBT was complex and expensive. Being a value-added tax led to several unfortunate results: businesses could be stuck with a large liability even if they were not making a profit, and there was a disincentive to hire workers in Michigan because payroll deductions claimed for Federal tax purposes were added back in arriving at the SBT tax base.

The MBT is imposed on any business that has a physical presence in Michigan for more than one day during the year or if the business activity solicits sales in Michigan and has gross receipts of \$350,000 or more that are attributable to Michigan. Taxpayers with gross receipts between \$350,000 and \$700,000 receive a credit that reduces their tax liability. The credit provides for a phase-in of the tax liability once a taxpayer reaches \$350,000 in gross receipts.

The tax is actually a combination of two different taxes, a business income tax and a gross receipts tax. The business income tax is imposed at a rate of 4.95% of a taxpayer's "business income tax base" apportioned to the State of Michigan. The modified gross receipts tax is imposed at a rate of 0.80% of a taxpayer's "modified gross receipts tax base" that is apportioned to Michigan. After the taxes are computed, businesses are eligible for several credits.

Although the MBT is intended to be revenue neutral compared to the SBT, the MBT will change the distribution of tax liabilities. Generally, manufacturing firms would experience a tax liability reduction compared to the SBT, while non-manufacturing firms would experience a tax increase. Similarly, while Michigan-only firms and multi-state firms that are based outside of Michigan will generally experience liability increases, Michigan-based multi-state firms will generally experience liability reductions.

In addition to the business tax changes brought about by the MBT, the Michigan personal property tax has been dramatically reduced. The personal property tax rate will be reduced by 12 mills for commercial property and 24 mills for industrial property. These reductions in the personal property tax will greatly benefit the manufacturing sector and other businesses that have substantial tangible personal property assets.

The third legislative action pertains to Brownfield redevelopment, which not only affects the economy but City of Adrian projects as well. On December 27, 2007, Michigan Public Acts 201, 202, 203 and 204 (The Acts) were signed into law to amend PA381 of 1996, The Brownfield Redevelopment Financing Act, which will enhance the scope and impact of Michigan's Brownfield redevelopment program. In terms of acreage redeveloped, buildings returned to productive reuse, private capital following public incentives, job creation and appreciation of taxable value, Michigan has led the nation's \$6 billion Brownfield market during the past decade. The passage of these Acts will likely improve the state's competitive advantage, in this regard.

The Acts extend the school tax capture provision to 2013, increase the amount of credits available from the state from \$30 million to \$40 million a year and reduces a city's public notice period from 20 days to 10 days, all of which will invite more capital into the Brownfield market. In addition, "Eligible Activities" for reimbursement has been broadened to now include reasonable costs of developing Brownfield plans and environmental insurance costs.

City of Adrian Fund Balance – General Fund

Governmental Funds report the difference between assets and liabilities as *fund balance*, which is divided into *reserved* and *unreserved* portions. The function of *reserved fund balance* is simply to isolate the portion of fund balance that is *not* available for the following period's budget, so that *unreserved fund balance* can serve as a measure of currently available financial resources.

The reservation of fund balance is necessary for two reasons:

- *Resources not available for spending.* Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. For example, a *long-term* loan receivable, such as an advance to another fund, is not available for *current* spending. Likewise, governments like the City of Adrian that elect to report supplies, inventories and prepaid items in governmental funds typically would report a corresponding amount of *reserved fund balance* to indicate that these amounts are not actually available for spending.
- *Legal restrictions on spending.* Fund balance is also reserved to indicate situations where a portion of fund balance is not available for new spending because of legal restrictions involving parties outside the financial reporting entity. The most common example is amounts reserved for encumbrances, which represent contracts for goods or services with outside parties that are still outstanding at the end of the period and that the City intends to honor.

Unreserved fund balance may, in turn, be subdivided into *designated* and *undesignated* portions. Designations represent management's intended use of resources and should reflect actual plans approved by the City's senior management. Expressed another way, designations reflect a government's self-imposed limitations on the use of otherwise available current financial resources.

The schedule on the following page presents an analysis of changes in General Fund – Fund Balance between FY2006-07 and FY2007-08:

**CITY OF ADRIAN
FY2007-08 YEAR-END REPORT**

**GENERAL FUND
Designated Fund Balance
(Including Audit Adjustments)**

Fund Balance as of June 30, 2007		\$6,123,518
Reserves		
for:		
Inventories and Prepayments	\$176,636	
Encumbrances	627,165	
Total Reserved Fund Balance as of June 30, 2007		803,801
 Unreserved Fund Balance as of June 30, 2006		 \$5,319,717
 FY2007-08 Revenue and Other Sources	\$13,101,346	
FY2007-08 Expenditures	13,356,950	
Revenue Over/(Under) Expenditures		(255,604)
 FY2007-08 Reserve for Inventories and Prepayments	\$197,397	(20,761)
FY2007-08 Reserve for Encumbrances	700,207	(73,042)
 Unreserved Fund Balance as of June 30, 2008		 \$4,970,310
 Proposed Designations of Unreserved Fund Balance (Acct. #393.000):		
1 City Hall	\$2,000,000	
2 DPW-Motor Pool – Depreciation Catch-Up	700,000	
3 FY2008-09 Budget Subsidy	455,585	
4 City Government Complex - First Year Debt Service	250,000	
5 Property Acquisitions, Demolitions and Options	150,000	
6 Telecommunication Upgrades	50,000	
7 Local Grant Match	25,000	
Total Proposed Designations		3,630,585
 Estimated FY2007-08 Undesignated Fund Balance		 <u>\$1,339,725</u>

The decrease in the Unreserved General Fund-Fund Balance (\$349,407) is mainly attributable to the following anticipated transactions:

- Establishment of the Fire Department Motor Vehicle Fund and transfer of funds equivalent to the accumulated depreciation of existing Fire Department rolling stock \$ (400,583)
- Appropriation of funds for Adrian Public Library Renovation (231,533)
- Appropriation of funds for MERS Window for Pension Benefits (204,999)
- Total Anticipated Draws on Fund Balance \$ (837,115)

Other Significant Operating Variances, both favorable and unfavorable, combined to partially offset the foregoing anticipated draws on Fund Balance:

- Reduced personnel costs due to downward reclassification of City Clerk, City Engineer, Utilities Director and City Assessor, in addition to deletion of Parks & Forestry Foreman, Recreation Manager, and Police Department clerical position, as well as replacement of Manpower contract position with Part-Time Non-Eligible position in the Assessing Office \$ 304,744
- Church Street Parking Lot – Delay Renovation 160,458
- General Fund-Motor Vehicle Rental Charges to Other Funds 175,664
- Blue Cross/Blue Shield Health Benefit – 50% Reimbursement of Reserve Based on favorable Experience Factor 87,741
- Fire Dept. Motor Vehicle Rent withheld in lieu of Working Capital Transfer 99,921
- Delinquent Personal Property Taxes associated with ailing economy(128,993)
- Increased Employer Retirement Contributions associated with improved pension for T-POAM and Non-Represented Employees (MERS B-2 to B-3 Plan) (127,000)
- Increase in Reserves for Encumbrances (73,042)
- Increase in Reserves for Inventories and Prepayments (20,761)
- Total Significant Operating Variances \$ 478,732
- Net Unfavorability Explained \$ (358,383)

Cash Management Policies and Practices – Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, obligations of the U.S. Treasury, pooled investments and managed portfolio trusts that adhere to the City's adopted investment policy and Public Act 20 of 1943, as amended, Investment of Public Funds Act. The following exhibit compares investments on June 30, 2007 with the prior fiscal year, reflecting an overall increase of \$1,405,913.

<u>Investment Type</u>	<u>FY2006-07</u>	<u>FY2007-08</u>
Money Market Accounts	\$ 681,777	\$ 641,091
Certificates of Deposit	4,243,416	2,001,036
U.S. Government Securities	5,560,950	5,528,877
Pooled Investments	203,107	765,870
	<u>\$10,689,250</u>	<u>\$ 8,936,874</u>

The exhibit below shows the amount of interest earnings by each type of fund during the 2007-08 fiscal year, compared with the prior fiscal year.

<u>Fund Type</u>	<u>FY2006-07</u>	<u>FY2007-08</u>
General Fund	\$377,447	\$291,900
Other Governmental Funds	172,081	208,207
Proprietary Funds	<u>112,748</u>	<u>121,552</u>
	<u>\$662,276</u>	<u>\$621,659</u>

City of Adrian investment policy specifies that all public funds held by the City, including federal funds, shall be deposited and/or invested with agencies that are recognized and authorized by Michigan statutes for that purpose. All certificates of investments of funds entrusted to the City of Adrian shall remain in the custody of the Finance Department unless otherwise authorized by the City Commission. As of June 30, 2008 all certificates of investments were in custody of the Finance Department.

Risk Management – The City is a member of the Michigan Municipal Liability and Property Pool for its general liability property coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers' compensation coverage. Both pools are under the Michigan Municipal Program sponsored and administered by the Michigan Municipal League (MML).

The City pays annual premiums to the insurance pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of a minimum of \$1,000,000 for each specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund. Based on an historical claims analysis by the Finance Department, deductibles for Comprehensive General Liability, Personal Injury Liability and Public Officials Liability coverages were increased from \$1,000 to \$5,000, four years ago resulting in an annual savings of almost \$30,000.

Pension and Other Post-employment Benefits– The City of Adrian is a member of the Municipal Employees' Retirement System (MERS) of Michigan. The pension program is administered by the MERS Board under the provisions of the Municipal Employees' Retirement Act of 1984, as amended by Public Act 220 of 1996, embodied in the MERS Plan Document. The pension program is categorized as a Defined Benefit Program with eligibility earned at age 60 with 8 or more years of credited service with annual retirement benefits for General Non-represented employees based on 2.25 percent of Final Average Compensation (FAC defined as the three consecutive year period of credited service in which the average compensation paid is highest) times years of credited service.

For the current reporting period, employee contributions for General employees amount to 4.0 percent of salary, while employer contributions (\$1,173,432) equate to 13.7 percent. Upon recommendation of the City Administrator, the City Commission, in 2005, improved the Defined Benefit Program by reducing the required years of credited service to achieve full vesting rights from 10 year to 8 years. Pension benefits, as well as employee and employer contributions, for Represented employees are determined in the collective bargaining process. Total Regular Employee Contributions for Fiscal Year 2007-08 amounts to \$341,818. As of December 31, 2007, the Pension Plan had Net Assets of \$40,488,407 with an Unfunded Actuarial Accrued Liability of \$7,205,491, resulting in a decrease in the Funded Ratio from 86.8% to 84.8%.

Fiduciary Operation- The City of Adrian has a perpetual care fund from which the interest earnings are used to maintain the cemetery. Interest earnings amounted to \$47,998 for Fiscal Year 2007-08, an increase of \$8,474, and the investment balance increased from \$790,929 to \$853,727, up \$62,798.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Adrian for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. This was the twenty-first consecutive year that the City has received this prestigious award.

In order to attain the Award, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report with contents in conformance with program standards. Such Report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for review.


In addition, the City's Chief Financial Officer, previously accorded the Life Achievement Award as "Honorary Life Member", will be serving an unprecedented third term on the Michigan Government Finance Officers Association (MGFOA) Board of Trustees. He was the association's President in 1995-96 and was State Representative to the national Government Finance Officers Association of the United States and


Canada from 2003-2007. His current term of office will extend from 2008-2010.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in preparation of this report.

In closing, credit must also be given to the Mayor and the City Commission for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Adrian's finances.

Respectfully submitted,


Darle C. Nelson
City Administrator


Jeffrey C. Pardee, C.P.F.O.
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Adrian
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



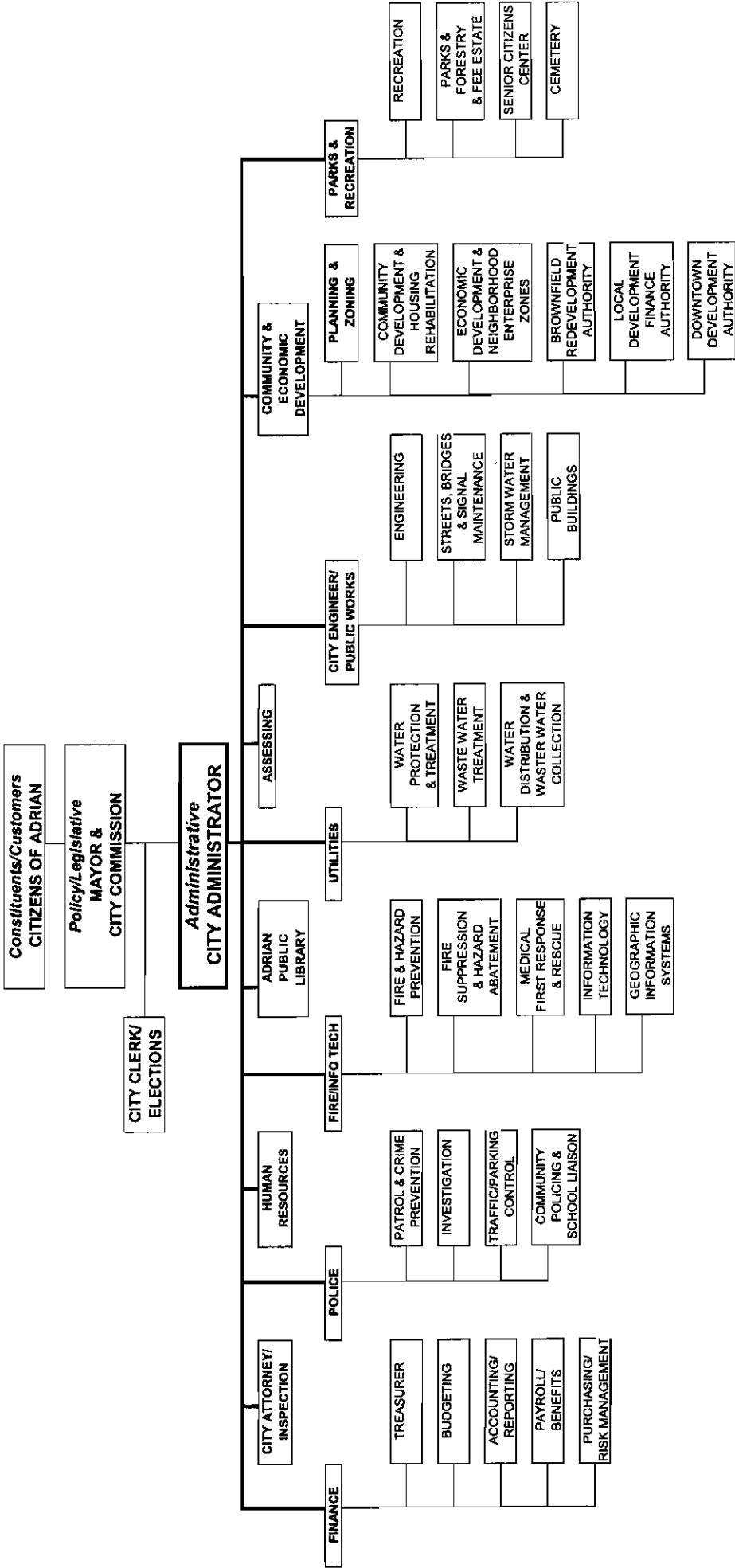
Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

CITY OF ADRIAN ORGANIZATION CHART



CITY OF ADRIAN, MICHIGAN

LIST OF PRICIPAL OFFICIALS

June 30, 2008

<u>NAME</u>	<u>TITLE</u>
Gary McDowell	Mayor
Michael Clegg	Commissioner
Greg Dumars	Commissioner
Barbara Mitzel	Commissioner
Michael Osborne, Jr.	Commissioner
Harry "Dusty" Steele	Commissioner
Kirk Valentine	Commissioner
Dane C. Nelson	City Administrator
Jeffrey C. Pardee, C.P.F.O.	Finance Director
Sarah Osburn	City Attorney
Ricky Knapp	City Assessor
Terrence Collins	Police Chief
Paul G. Trinka	Fire Chief/IT Director
Mark Gasche	Parks & Recreation Director
Carol Souchak	Library Director
Kristin Bauer	City Engineer/Public Works Director
Pat Baker	City Clerk
Shane Horn	Utilities Director
Heather Lasky	Human Resources Director
Christopher Atkin	Community/Economic Develop Dir.
Marcia Bohannon	Transportation Coordinator
Jennifer Compton	Downtown Development Director

September 25, 2008

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited each nonmajor governmental fund and internal service fund, each nonmajor enterprise fund, and the fiduciary fund type presented in the accompanying combining and individual fund financial statements and schedules, also individual fund statements for discretely presented component units; and schedules of indebtedness of the City of Adrian, Michigan, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the all major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and internal service funds nonmajor enterprise fund, and fiduciary fund type of the City of Adrian as of June 30, 2008, and the respective changes in the financial position and cash flows, where applicable, thereof and the budgetary comparison for all nonmajor governmental funds, and includes the individual fund statements for discretely presented component units and schedules of indebtedness for the year then ended in conformity with accounting principles generally accepted in the United States of America.

September 25, 2008

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated August ____, 2008 on our consideration of the City of Adrian, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and pension plan schedule on pages 33 through 45 and page 95, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Adrian, Michigan's basic financial statements. The introductory section, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Adrian, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

CITY OF ADRIAN, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL STATEMENT
Management's Discussion and Analysis
October 16, 2008

As management of the City of Adrian, we offer readers of the City of Adrian's financial statements this narrative overview and analysis of the financial activities of the City of Adrian for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-33 of this report. All amounts, unless otherwise indicated, are presented in whole dollars.

Financial Highlights

- The Assets of the City of Adrian exceeded its liabilities at the close of the most recent fiscal year by \$68,423,960 (*net assets*). Of this amount, \$8,188,963 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,376,046, a \$513,656 increase in Governmental Activities, and a \$862,390 increase in Business-Type Activities. The primary contributing factors relating to the increase in Net Assets for Governmental Activities are:

Cash & Investments	\$1,122,546 (Swigert Estate/Vibrant Small Cities)
Machinery, Equipment Depreciation	(447,629)
All Other	<u>161,261</u>
Total	<u>\$513,656</u>

The primary reason for the overall increase in net assets in Business-Related Activities is that Utility Systems Construction In-Process increased by \$5,213,786, more than offsetting the normal decrease in depreciated capital assets associated with utility funds.

- As of the close of the current fiscal year, the City of Adrian's governmental funds reported combined ending fund balances of \$10,040,765, a decrease of \$1,192,735 in comparison with the prior year. Following is a summary of Net Change in Fund Balance for selected Funds:

General Fund	\$ (255,604)
Major Street Fund	(2,018,363)
Local Street Fund	201,217
Community Development	(128,897)
Economic Development	(98,986)
Vibrant Small Cities	1,013,488
All Other	<u>94,410</u>
Total	<u>\$(1,192,735)</u>

The unfavorability for the General Fund is primarily due to the following anticipated transactions:

- Establishment of the Fire Department Motor Vehicle Fund and transfer of funds equivalent to the accumulated depreciation of existing Fire Department rolling stock	\$ (400,583)
- Appropriation of funds for Adrian Public Library Renovation	(231,533)
- Appropriation of funds for MERS Window for Pension Benefits	<u>(204,999)</u>
Total Anticipated Draws on Fund Balance	\$ (837,115)

Other Significant Operating Variances, both favorable and unfavorable, combined to partially offset the foregoing anticipated draws on Fund Balance:

- Reduced personnel costs due to downward reclassification of City Clerk, City Engineer, Utilities Director and City Assessor, in addition to deletion of Parks & Forestry Foreman, Recreation Manager, and Police Department clerical position, as well as replacement of Manpower contract position with Part-Time Non-Eligible position in the Assessing Office	\$ 304,744
- Church Street Parking Lot – Delay Renovation	160,458
- General Fund-Motor Vehicle Rental Charges to Other Funds	175,664
- Blue Cross/Blue Shield Health Benefit – 50% Reimbursement of Reserve Based on favorable Experience Factor	87,741
- Fire Dept. Motor Vehicle Rent withheld in lieu of Working Capital Transfer	99,921
- Delinquent Personal Property Taxes associated with ailing economy	(128,993)
- Increased Employer Retirement Contributions associated with improved Pension for T-POAM and Non-Represented Employees (B-2 to B-3 Plan)	(127,000)
Total Significant Operating Variances	<u>\$ 572,535</u>
Net Unfavorability Explained	<u>\$ (264,580)</u>

The unfavorability in the Major Street Fund (\$2,018,363) reflects the transfer of funds to the Vibrant City Grant Fund, as well as the use of previously awarded grant funds for Beecher Street and Maple Avenue road improvements.

- At the end of the current fiscal year, unreserved fund balance for the general fund was \$4,970,310 or forty-four (37%) percent of total general fund expenditures. Of this amount, management has designated \$3,630,585 for the following specific projects, leaving \$1,339,725 in Unreserved/Undesignated Fund Balance. The designations are detailed as follows:

1) City Hall	\$2,000,000
2) DPW-Motor Pool Depreciation Catch-Up	700,000
3) FY2008-09 Budget Subsidy	455,585
4) City Hall Complex – First Year Debt Service	250,000
5) Property Acquisitions, Demolitions and Options	150,000
6) Telecommunication Upgrades	50,000
7) Local Grant Match	<u>25,000</u>
Total	<u>\$3,630,585</u>

- The City of Adrian's total Long-Term Liabilities increased by \$4,412,948 or twenty-one (21%) percent during the current fiscal year to a total of \$25,859,055. General Obligation Debt increased \$1,086,675, from \$771,188 to \$1,857,863, due to the issuance of two (2) Installment Purchase Contracts and one (1) Land Contract for the purpose of property acquisitions:
 - 153/155 East Maumee Street for new Downtown Government Complex (\$542,000; 3.30% over five years with balloon payment at maturity);
 - 381 Miles Drive for new Parks & Forestry Maintenance Facility (\$550,000; 4.88% amortized over fifteen years with balloon payment in three years);
 - 250 West Church Street for Pearl Street (Downtown) property consolidation for future private development (\$135,000 Land Contract; 6.00% over three years with balloon payment at maturity).

The foregoing increases were offset by debt service payments on Parks & Recreation Installment Purchase Agreement (\$117,222) for acquisition of the Marvin Farm and the first payment on the Land Contract (\$23,100).

Outstanding Revenue Bond Debt increased by \$4,433,076, from \$21,331,529 to \$25,764,605; a summary follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding Balance</u>
Wastewater System Improvements	09/26/02	\$ 8,920,000	2.500%	10/01/23	\$ 7,475,000
Water System Improvements	09/26/02	5,665,000	2.500%	10/01/23	4,745,000
Wastewater System Improvements	09/22/05	2,040,000	1.675%	10/01/26	1,955,000
Wastewater System Improvements	12/15/05	7,090,000	1.675%	04/01/27	6,420,874
Water System Improvements	09/27/07	<u>7,890,000</u>	2.125%	04/01/29	<u>5,168,731</u>
Total		<u>\$31,605,000</u>			<u>\$25,764,605</u>

Lastly, Long-Term Liability for Accrued Sick and Vacation Time increased \$90,983, from \$572,402 to \$663,385.

Overview of the Financial Statements

These discussion and analysis are intended to serve as an introduction to the City of Adrian's basic financial statements. The City of Adrian's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Adrian's finances, in a manner similar to private-sector business.

The *Statement of Net Assets* (Pages 54-55) presents information on all of the City of Adrian's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Adrian is improving or deteriorating.

The *Statement of Activities* (Pages 56-57) presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Adrian that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Adrian include general

government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Adrian include water and sewer operations, storm water utility and automobile parking activities, as well as Dial-A-Ride Transportation.

The government-wide financial statements include not only the City of Adrian itself (known as the *primary government*), but also a legally separate Downtown Development Authority, a legally separate Local Development Finance Authority and a legally separate Brownfield Redevelopment Authority, for which the City of Adrian is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The Dial-A-Ride transportation system and OMNI drug enforcement unit function, as well as the Internal Service Funds for Information Technology and Fire Department Motor Pool, for all practical purposes are departments of the City of Adrian and, therefore, have been included as an integral part of the primary government. The government-wide financial statements can be found on pages 54-57 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Adrian, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Adrian can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Adrian maintains eleven (11) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, major streets and local street funds, and the Fee and Public-Purpose Fund, all four of which are considered to be major funds. Data from the other seven (7) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The basic governmental fund statements can be found on pages 58-61 of this report.

The City of Adrian adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget (reference pages 63-65).

Proprietary Funds. There are traditionally two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Adrian uses enterprise funds to account for its water and sewer operations and for the Automobile Parking and Dial-A-Ride Systems, as well as the Capital Projects Revolving Fund and Storm Water Utility Fund. *Internal service funds* are an accounting device normally used to accumulate and allocate costs internally among the City of Adrian's various functions. The Information Technology Fund was established with the implementation of the FY2004-05 Budget and the Fire Department Motor Pool Fund was established with the implementation of the FY2007-08 Budget.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water System and the Wastewater System, both of which are considered to be major funds of the City of Adrian. Conversely, the Capital Projects Revolving Fund, Dial-A-Ride, Storm Water Utility and the Automobile Parking System funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these enterprise funds is provided in the form of *combining statements* elsewhere in this report. The basic proprietary fund financial statements can be found on pages 68-72 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Adrian's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 73 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 74-101 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Adrian's progress in funding its obligation to provide pension benefits to its employees through employer contributions and required employee contributions. Required supplementary information can be found on page 103 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and enterprise funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 106-133 of this report.

The Schedule of Indebtedness can be found on pages 160-167.

Economic Condition Reporting: The Statistical Section

The Governmental Accounting Standards Board (GASB) has issued Statement 44 regarding Economic Condition Reporting for General Purpose Local Governments. Although the provisions of Statement 44 are effective for Statistical Sections prepared for periods beginning after June 15, 2005, the City of Adrian met the intent of this Statement through early adoption (FY2004-05) and by improving the understandability and usefulness of the Statistical Section information by addressing traditional

comparability issues that have developed in practice and by adding information from the new financial reporting model for state and local governments required by Statement 34.

Statement 44 establishes the objectives of the Statistical Section and the five categories of information it contains – financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

This part of the City of Adrian's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

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Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Adrian, assets exceeded liabilities by \$68,423,960 at the close of the most recent fiscal year.

By far the largest portion of the City of Adrian's assets (80.0%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Adrian uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Adrian's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF ADRIAN'S NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	FY2007-08	FY2006-07	FY2007-08	FY2006-07	FY2007-08	FY2006-07
Current and Other Assets	\$12,328,278	\$12,639,443	\$5,300,100	\$4,390,688	\$17,628,378	\$17,030,131
Capital Assets	27,368,077	25,094,701	54,149,972	49,177,925	81,518,049	74,272,626
Total Assets	\$39,696,355	\$37,734,144	\$59,450,072	\$53,568,613	\$99,146,427	\$91,302,757
Long-Term Liabilities	\$2,426,798	\$1,185,775	\$25,859,055	\$21,446,106	\$28,285,853	\$22,631,881
Other Liabilities	1,186,408	978,876	1,250,206	644,086	2,436,614	1,622,962
Total Liabilities	\$3,613,206	\$2,164,651	\$27,109,261	\$22,090,192	\$30,722,467	\$24,254,843
Net Assets:						
Invested in Capital Assets (Net of Related Debt)	\$25,510,214	\$24,323,513	\$29,000,554	\$27,846,396	\$54,510,768	\$52,169,909
Restricted	4,172,851	5,109,982	1,551,378	1,630,058	5,724,229	6,740,040
Unrestricted	6,400,084	6,135,998	1,788,879	2,001,967	8,188,963	8,137,965
Total Net Assets	\$36,083,149	\$35,569,493	\$32,340,811	\$31,478,421	\$68,423,960	\$67,047,914

An additional portion of the City of Adrian's net assets, eight and four-tenths (8.4%) percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$8,188,963) may be used to meet the City's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Adrian is able to report positive balances in Net Assets for both Capital Assets and Unrestricted categories. The reduction in Restricted Assets is due to the completion of Road Improvement Projects, specifically, Beecher Street and Maple Avenue, thereby using previously restricted grant funding.

Change in Net Assets. As explained earlier under Financial Highlights, the City's total net assets increased by (\$1,376,046). However, a prior year's audit adjustment reduced Accounts Receivable for the Community Development Department by \$89,282. A summary of the net increase, segregating Governmental Activities and Business-Type Activities, as well as a comparison with prior year's actual, follows:

CITY OF ADRIAN'S CHANGES IN NET ASSETS						
	Governmental Activities		Business-Type Activities		Total	
	FY2007-08	FY2006-07	FY2007-08	FY2006-07	FY2007-08	FY2006-07
Revenues:						
Program Revenues:						
Charges for Services	\$2,512,002	\$2,685,360	\$7,323,520	\$7,225,375	\$9,835,522	\$9,910,735
Operating Grants & Contributions	1,337,035	1,955,976	311,794	239,326	1,648,829	2,195,302
Capital Grants & Contributions	87,562	1,027,519	845,647	74,819	933,209	1,102,338
Total Program Revenues	\$3,936,599	\$5,668,855	\$8,480,961	\$7,539,520	\$12,417,560	\$13,208,375
General Revenues:						
Property Taxes	\$7,401,258	\$7,070,336			\$7,401,258	\$7,070,336
Other Taxes	3,590,836	3,682,914			3,590,836	3,682,914
Grants & Contributions not						
Restricted to Specific Programs	234,237	13,336			234,237	13,336
Unrestricted Investment Earnings	500,338	549,528	\$121,552	\$109,417	621,890	658,945
Total General Revenues	\$11,726,669	\$11,316,114	\$121,552	\$109,417	\$11,848,221	\$11,425,531
Total Revenues	\$15,663,268	\$16,984,969	\$8,602,513	\$7,648,937	\$24,265,781	\$24,633,906
Expenses:						
General Government	\$1,975,257	\$2,511,362			\$1,975,257	\$2,511,362
Public Safety	5,029,372	5,011,563			5,029,372	5,011,563
Public Works	878,092	1,169,030			878,092	1,169,030
Culture and Recreation	3,699,922	1,871,000			3,699,922	1,871,000
Other Services	1,768,933	2,105,016			1,768,933	2,105,016
Community/Economic Developmnt	557,798	543,450			557,798	543,450
Highways, Streets & Bridges	1,086,063	1,153,185			1,086,063	1,153,185
Interest on Long-Term Debt	47,359	27,014			47,359	27,014
Wastewater System			\$3,959,962	\$3,788,575	3,959,962	3,788,575
Water System			2,937,637	2,984,185	2,937,637	2,984,185
Dial-A-Ride System			550,116	487,901	550,116	487,901
Auto Parking System			111,663	91,961	111,663	91,961
Storm Water Utility			287,561	234,562	287,561	234,562
Total Expenses	\$15,042,796	\$14,391,620	\$7,846,939	\$7,587,184	\$22,889,735	\$21,978,804
Transfers	-106,816	-107,366	106,816	107,366	0	0
Increase/(Decrease) in Net Assets	\$513,656	\$2,485,983	\$862,390	\$169,119	\$1,376,046	\$2,655,102
Net Assets - Beginning	\$35,658,775	\$33,172,792	\$31,478,421	\$31,309,302	\$67,137,196	\$64,482,094
Adj. Prior Yr Recvble - Comm Dev	-89,282				-89,282	
Net Assets - Ending	\$36,083,149	\$35,658,775	\$32,340,811	\$31,478,421	\$68,423,960	\$67,047,914

Financial Analysis of the Government's Funds

As noted earlier, the City of Adrian uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Adrian's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Adrian's governmental funds reported combined unreserved fund balances of \$7,892,813, a decrease of \$404,203 in comparison with the prior year. The primary cause for the decrease is due to Appropriation of funds for Adrian Public Library Renovation (\$231,533) and Appropriation of funds for MERS Window for Pension Benefits (\$204,999). Approximately three-quarters (78%) of the total fund balance, \$10,040,765, is *available for spending* at the City Commission's discretion (*unreserved fund balance*). The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$912,748), 2) for inventories and prepayments (\$204,896), 3) to generate income to pay for the perpetual care of the municipal cemetery (\$823,137), 4) debt service on loans (\$97,507) or 5) for a variety of other restricted purposes (\$109,664).

The General Fund is the chief operating fund of the City of Adrian. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$4,970,310, while total fund balance reached \$5,867,914, a decrease of \$255,604. The primary reason is due to Appropriation of funds for Adrian Public Library Renovation (\$231,533). As a measure of the General Fund's liquidity, it is instructive to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents thirty-seven (37%) percent of the total General Fund expenditures, while total fund balance represents forty-four (44%) percent of that same amount.

Other Governmental Funds include Major Streets, Local Streets, and Fee & Public Purpose Funds, as well as other minor funds, such as Perpetual Care and Endowment Funds. Collectively, their fund balances decreased by \$1,026,413, to \$4,172,851. The unfavorability in the Major Street Fund - \$(2,018,363) - reflects a planned drawdown for road projects using reserved grant funding, as well as a transfer of matching grant funds to the Vibrant Small City Grant Fund for the two-way street traffic circulation project. The favorability in the Local Street Fund - \$201,217 - reflects delay of the College Park Subdivision Project due to issues related to curb and gutter assessments, which have been resolved. The funds will be used to complete the project this fall. The Endowment Trust Fund favorability - \$789,804 - reflects the establishment of the Vibrant Small Cities Grant Fund.

Proprietary Funds. The City of Adrian's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Wastewater Fund at the end of the year amounted to \$15,625,512, a decrease of \$300,042, attributable to a planned draw down on Retained Earnings to cover increased debt service expenses related to implementation of a Wastewater System Improvement Project Plan, thereby minimizing user rate increases. The Water System experienced an \$327,230 increase in net assets, from \$11,545,261 to \$11,872,491, primarily due to increased revenue from charges for services. The total growth in all other Proprietary Funds was \$835,202, including Storm-Water Utility, Automobile Parking System, Dial-A-Ride System and Capital Projects Revolving Fund. The primary contributing factor to this increase is the grant funded addition of the new Transportation Facility.

General Fund Budgetary Highlights

Differences in the original budget and the final amended budget amounted to a \$2,258,985 increase in appropriations and can be briefly summarized as follows:

- Purchase of Parks & Forestry Facility	\$ 550,000
- Prior Year Encumbrances and Carry-Forward Items	647,201
- Private Donations – Fee Estate – Burr Ponds	453,362
- Library Renovation	231,533
- MERS Window Period Retirements	204,999
- Library – Private Donations	43,809
- Interest Earnings estimate based on Quarterly Forecasts	40,000
- Contribution to Community Development	(36,000)
- Firefighters' Assistance Grant Acceptance – Radios	35,280
- Burr Ponds Fishing Pier	24,395
- Emerald Ash Borer Grant	18,000
- City Attorney Contract Services	15,000
- Police JAG Grant Award Acceptance	12,101
- Weed Mowing	11,000
- Non-Drug Forfeiture Appropriations – Tahoe/Software	7,305
- Auction – Sale of Confiscated and Surplus Property	6,000
- Consumer Energy Collection Fee	(5,000)
Total Budget Amendments	<u>\$2,258,985</u>

The above listed appropriations were budgeted from available fund balance. During the year, however, expenses were less than the amended budgetary estimates, thus reducing the need to draw upon existing fund balance.

Significant variances between the Amended Budget and Actual Revenue and Expenditures are identified and explained as follows:

Revenue:

Compared to the Amended Budget, actual revenue was unfavorable by (\$256,292). The variance is primarily due to uncollected Personal Property Taxes, which amounted to \$263,131 (equivalent to 3.7% of total taxes), due to poor economic conditions.

Expenditures:

Compared to the Amended Budget, actual expenditures were favorable by \$1,068,865. The primary reason for this favorability is the manpower cost savings associated with several position reclassifications and consolidations resulting from implementation of an early-retirement program and the delay of Church Street Parking Lot improvements.

Capital Asset and Debt Administration

Capital Assets. The City of Adrian's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounts to \$81,518,049 (net of accumulated depreciation), representing a year-to-year increase of \$7,245,423. Governmental Activities increased \$2,273,376, from \$25,094,701 to \$27,368,077, primarily due to building acquisitions related to the new Downtown

City Government Complex and the new Parks & Forestry Maintenance Building, as well as increase in the value of the City's infrastructure related to Road improvements. Business-Type Activities increased \$4,972,047, from \$49,177,925 to \$54,149,972. The nature of the Business-Type Activities increase is primarily related to construction of the new Transportation Facility, as well as construction-in-progress for Sewer and Water System improvements, financed by low-interest loans from the State of Michigan. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and park facilities, as well as roads, highways and bridges, and water/wastewater infrastructure. The total increase in the City of Adrian's investment in capital assets for the current fiscal year was 9.8 percent (a 9.1 percent increase for governmental activities and a 10.1 percent increase for business-type activities).

A summary of the City of Adrian's Capital Assets is provided below. Additional information regarding the City of Adrian's capital assets can be found in note Note 3.C. (pages 87-90) of this report.

CITY OF ADRIAN'S CAPITAL ASSETS
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$7,571,139	\$7,571,137	\$ 927,460	\$ 927,460	\$8,498,599	\$8,498,597
Land Improvements	5,972,492	6,172,112	1,001,188	1,032,890	6,973,680	7,205,002
Buildings and Systems	2,821,935	1,749,127	812,276	82,933	3,634,211	1,832,060
Utility Systems	0	0	36,588,303	37,590,549	36,588,303	37,590,549
Machinery & Equipment	3,773,857	4,221,486	223,794	160,928	3,997,651	4,382,414
Infrastructure	7,228,654	5,380,839	0	0	7,228,654	5,380,839
Construction - In-Progress	0	0	14,596,951	9,383,165	14,596,951	9,383,165
Total Capital Assets	\$27,368,077	\$25,094,701	\$54,149,972	\$49,177,925	\$81,518,049	\$74,272,626

Long-Term Liabilities. At the end of the current fiscal year, the City of Adrian had total long-term liabilities of \$25,859,055, an increase of \$4,412,948 over the prior year. Of this amount, \$1,857,863 comprises debt backed by the full faith and credit of the City, an increase of \$1,086,675 due to the Installment Purchase Contracts issued to acquire buildings for the new Downtown City Government Complex, a land contract for the purchase of 250 W. Church Street (to consolidate Pearl Street property ownership), and an Installment purchase Contract to acquire the Parks & Forestry Facility, offset by payment of debt service on an \$1,200,000 installment purchase contract for the acquisition of park property (Marvin Farm) in Adrian and Madison Townships (since annexed to the City), which will be completely repaid by 2013. Of the total outstanding debt, \$25,764,605 represents bonds secured solely by specified revenue sources (i.e., revenue bonds), a year-to-year increase of \$4,433,076, funds used to upgrade the City's Wastewater System. In addition, Accrued Sick and Vacation Compensation amounts to \$663,385, an increase of \$90,983 over the prior year. The City recently engaged a health benefit consultant (Kapnick Insurance Company) and, as a result, is examining the possibility of changing its accrued sick & vacation policies in favor of short- and long-term disability programs.

CITY OF ADRIAN'S LONG-TERM LIABILITIES
General Obligation and Revenue Bonds
Installment Purchase Obligations
Accrued Sick and Vacation

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land Contract	\$ 111,900	\$ 0	\$ 0	\$ 0	\$ 111,900	\$ 0
Revenue Bonds	0	0	25,764,605	21,331,529	25,764,605	21,331,529
Installment Purchase	1,745,963	771,188	0	0	1,745,963	771,188
Accrued Sick & Vacation	568,935	457,824	94,450	114,578	663,385	572,402
Total Long-Term Liabilities	<u>\$2,426,798</u>	<u>\$1,229,012</u>	<u>\$25,859,055</u>	<u>\$21,446,107</u>	<u>\$28,285,853</u>	<u>\$22,675,119</u>

On June 30, 2008, the City of Adrian had a number of debt issues outstanding. These issues consisted of general obligation debt and revenue bonds. The City has maintained an A1 bond rating from Moody's Investor Services and an A rating from Standard & Poor's on general obligation issues. Under current State statutes, the City's general obligation outstanding debt amount is subject to a legal limitation based on 10 percent of total assessed value of real and personal property. As of June 30, 2008 the City's net general obligation bond and installment debt of \$1,857,863 was well below the legal limit of \$45,059,985 and General Obligation debt per capita equaled \$83.63, a year-to-year increase of \$48.92.

Additional information on the City of Adrian's long-term debt can be found in Note 3 on pages 84-89 of this report.

Economic Factors and Next Year's Budgets and Rates

- The FY2008-09 Budget Recommendation was submitted at a time when economic conditions were deteriorating and property values in a state of decline.
- Michigan's unemployment rate for August stood at 8.9 percent, the highest monthly mark in the state since 1992 and the highest in the nation.
- Michigan's unemployment continued to lead the nation, which stood at 6.1%.
- The unemployment rate for Lenawee County jumped to 11.2 percent in July, the county's highest rate since it rose to 12.7 percent in March, 1991.
- The number of employed workers in the county slipped by 1,315 during the month, to a total of 44,663, down 1,650 workers from a year ago.
- Lenawee County was particularly hard hit, moving from 60th place in employment among Michigan's 83 counties in June to 65th place in July.
- Inflationary trends in the region compare favorably with national indices.

All of these factors were considered in preparing the City of Adrian's budget for the 2008-09 fiscal year. Also during the current fiscal year, unreserved fund balance in the General Fund stands at \$4,970,310 or thirty-seven (37%) percent of total general fund expenditures. The City of Adrian has

designated \$455,585 of the Unrestricted Fund Balance amount for spending in the ensuing fiscal year budget, primarily for the purpose of funding anticipated debt service on a consolidated long-term debt issue for capital expenses, current and past.

The Utility Department has engaged an expert consultant to perform a User Rate Analysis that includes the financial impact of the existing and future debt service requirements, as well as the replacement/renovation capital projects costs. Based on that analysis, this budget includes water and sewer rate increases of 19% and 12%, respectively, effective July 1, 2008. For a typical residential customer using eight units (100 cf), which is approximately 6,000 gallons per month, the monthly water bill will increase \$2.00 and the monthly sewer bill will increase \$3.78. Even with these increases, the resultant rates are competitive with other similar size units throughout the state. Based on a survey of 28 such communities, the \$47.12 monthly cost for sewer and water services ranks seventh lowest in a range between a monthly cost of \$35.49 and \$109.05.

With a constant tax levy of 15.6039 mills (including operating, refuse collection and road improvements), good stewardship has been reflected in the management of City finances.

Requests for Information

This financial report is designed to provide a general overview of the City of Adrian's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 100 E. Church Street, Adrian, Michigan 49221 or call 517-264-4824 or e-mail: jpardee@ci.adrian.mi.us

CITY OF ADRIAN, MICHIGAN

STATEMENT OF NET ASSETS

June 30, 2008

With Comparative Totals for June 30, 2007

PRIMARY GOVERNMENT

	Governmental Activities	Business-type Activities	2008	Totals	2007	Component Units Combined Totals
ASSETS:						
Cash and cash equivalents	\$ 3,403,822	\$ 1,346,577	\$ 4,750,399	\$ 4,750,399	\$ 2,805,188	\$ 607,977
Investments	7,674,077	1,250	7,675,327	7,675,327	7,578,803	162,789
Receivables (net of allowance for uncollectibles)	651,327	1,872,435	2,523,762	2,523,762	2,339,376	4,261
Due from component units	1,331		1,331	1,331	7,022	
Due from primary government						50
Due from other governments	294,511	298,920	593,431	593,431	777,750	
Internal balances	98,314	(98,314)				
Inventories	172,842	196,010	368,852	368,852	316,164	
Prepaid expense	32,054	9,780	41,834	41,834	47,804	
Restricted assets:						
Temporarily restricted:						
Cash and cash equivalents		574,684	574,684	574,684	311,642	
Investments		1,098,758	1,098,758	1,098,758	1,415,790	
Permanently restricted:						
Cash and cash equivalents					12,508	
Investments					1,418,084	
Capital Assets (Net of accumulated depreciation):						
Land	7,571,139	927,460	8,498,599	8,498,599	8,498,597	
Land improvements	5,972,492	1,001,188	6,973,680	6,973,680	7,205,002	592,494
Buildings	2,821,935	812,276	3,634,211	3,634,211	1,832,060	
Utility systems		36,588,303	36,588,303	36,588,303	37,590,549	768,200
Machinery, equipment, and furnishings	3,773,857	223,794	3,997,651	3,997,651	4,382,414	
Infrastructure	7,228,654		7,228,654	7,228,654	5,380,839	
Construction in progress		14,596,951	14,596,951	14,596,951	9,383,165	
Total assets	<u>39,696,355</u>	<u>59,450,072</u>	<u>99,146,427</u>	<u>99,146,427</u>	<u>\$ 91,302,757</u>	<u>2,135,771</u>

PRIMARY GOVERNMENT

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	<u>Component Units Combined Totals</u>
			<u>2008</u>	<u>2007</u>
LIABILITIES:				
Accounts payable and other current liabilities	\$ 1,082,527	\$ 1,121,599	\$ 2,204,126	\$ 1,437,844
Accrued interest payable	40,459		40,459	27,014
Due to primary government				7,800
Due to component unit	50		50	6,543
Due to other governments		6,543	6,543	46,387
Unearned revenue	63,372	122,064	122,064	97,374
Liabilities paid from restricted assets				
Noncurrent liabilities:				
Due within one year	389,995	1,025,000	1,414,995	869,903
Due in more than one year	<u>2,036,803</u>	<u>24,834,055</u>	<u>26,870,858</u>	<u>21,761,978</u>
Total liabilities	<u>3,613,206</u>	<u>27,109,261</u>	<u>30,722,467</u>	<u>24,254,843</u>
NET ASSETS:				
Invested in capital assets, net				
related debt	25,510,214	29,000,554	54,510,768	52,169,909
Reserved for:				
Public safety	163,269		163,269	208,383
Community/economic development	1,255,854		1,255,854	471,149
Highways and streets	1,106,285		1,106,285	2,922,977
Debt service		1,551,378	1,551,378	1,630,058
Endowment:				
Expendable	659,416		659,416	562,878
Nonexpendable	109,664		109,664	95,342
Perpetual care	830,636		830,636	802,455
Other purposes	47,727		47,727	46,798
Unrestricted	<u>6,400,084</u>	<u>1,788,879</u>	<u>8,188,963</u>	<u>8,137,965</u>
Total net assets	<u>\$ 36,083,149</u>	<u>\$ 32,340,811</u>	<u>\$ 68,423,960</u>	<u>\$ 67,047,914</u>
				<u>\$ 1,700,552</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF ACTIVITIES

For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007

PROGRAM REVENUES

	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>
Functions/Programs				
Primary Government:				
Governmental activities:				
General government	\$ 1,975,257	\$ 1,060,215	\$	\$
Public safety	5,029,372	424,561	30,707	
Public works	878,092	28,950		
Culture and recreation	3,699,922	346,796	1,169,690	
Other services	1,768,933	282,677	93,730	
Community/economic development	557,798	225,048	42,908	58,527
Highways, streets, and bridges	1,086,063	143,755		29,035
Interest on long term debt	47,359			
Total governmental activities	<u>15,042,796</u>	<u>2,512,002</u>	<u>1,337,035</u>	<u>87,562</u>
Business-type Activities:				
Wastewater system	3,959,962	3,583,307		
Water system	2,937,637	3,252,666		
Dial-A-Ride system	550,116	100,066	254,723	845,647
Automobile parking system	111,663	94,902	57,071	
Storm water utility	287,561	292,579		
Total business-type activities	<u>7,846,939</u>	<u>7,323,520</u>	<u>311,794</u>	<u>845,647</u>
Total primary government	<u>\$ 22,889,735</u>	<u>\$ 9,835,522</u>	<u>\$ 1,648,829</u>	<u>\$ 933,209</u>
Component Units:				
Downtown Development Authority	\$ 480,684	\$	\$	\$
Brownfield Redevelopment	1,440			
DDA Debt	27,252			
LDFA Debt	56,499			
Total component units	<u>\$ 565,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:				
Property taxes				
Sales tax				
Motor vehicle fuel tax				
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings				
Discharge of Debt				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets – beginning of year				
Adjustment of Prior Year Receivables – Community Development				
Net assets – end of year				

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF ACTIVITIES

For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007

PRIMARY GOVERNMENT					Component Units Combined Totals
Governmental Activities	Business-type Activities	Totals 2008	2007		
\$ (915,042)		\$ (915,042)	\$ (1,471,823)	\$	
(4,574,104)		(4,574,104)	(4,411,048)		
(849,142)		(849,142)	(1,167,067)		
(2,183,436)		(2,183,436)	273,096		
(1,392,526)		(1,392,526)	(1,792,470)		
(231,315)		(231,315)	55,012		
(913,273)		(913,273)	(270,733)		
(47,359)		(47,359)	(27,014)		
<u>(11,106,197)</u>	<u>-</u>	<u>(11,106,197)</u>	<u>(8,812,047)</u>	<u>-</u>	
	(376,655)	(376,655)	(327,450)		
	315,029	315,029	289,180		
	650,320	650,320	(78,950)		
	40,310	40,310	23,520		
	<u>5,018</u>	<u>5,018</u>	<u>46,036</u>		
<u>-</u>	<u>634,022</u>	<u>634,022</u>	<u>(47,664)</u>	<u>-</u>	
\$ <u>(11,106,197)</u>	\$ <u>634,022</u>	\$ <u>(10,472,175)</u>	\$ <u>(8,859,711)</u>	\$ <u>-</u>	
\$	\$			\$ (480,684)	
				(1,440)	
				(27,252)	
				<u>(56,499)</u>	
\$ <u>-</u>	\$ <u>-</u>			\$ <u>(565,875)</u>	
7,401,258		7,401,258	7,070,336	567,032	
2,311,867		2,311,867	2,383,155		
1,278,969		1,278,969	1,299,759		
234,237		234,237	13,336	325,331	
500,338	121,552	621,890	658,945	15,617	
<u>(106,816)</u>	<u>106,816</u>	<u>-</u>	<u>-</u>	<u>764,100</u>	
<u>1,619,853</u>	<u>228,368</u>	<u>11,848,221</u>	<u>11,425,531</u>	<u>1,672,080</u>	
513,656	862,390	1,376,046	2,565,820	1,106,205	
(89,282)		(89,282)			
<u>35,658,775</u>	<u>31,478,421</u>	<u>67,137,196</u>	<u>64,482,094</u>	<u>594,347</u>	
\$ <u>36,083,149</u>	\$ <u>32,340,811</u>	\$ <u>68,423,960</u>	\$ <u>67,047,914</u>	\$ <u>1,700,552</u>	

CITY OF ADRIAN, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

	General	Major Streets	Local Streets	Fee And Public-Purpose	Other Governmental Funds	Totals Governmental Funds
					2008	2007
ASSETS						
Cash and cash equivalents	\$ 5,246,298	\$ 198,122	\$ 752,080	\$ 81,845	\$ 2,492,498	\$ 1,953,945
Investments		798,253		22,391	7,674,077	8,996,887
Receivables:						
Accounts	477,883	56,983			550,340	538,602
Loans					97,507	128,685
Due from other funds	272,966				295,625	613,620
Due from component units	415				415	890
Due from other governments	294,511				294,511	329,136
Inventories:						
Land held for resale, at cost					7,499	7,499
Supplies at cost	165,343				165,343	139,740
Prepaid cost	32,054				32,054	36,896
Total assets	\$ 6,489,470	\$ 1,053,358	\$ 752,080	\$ 104,236	\$ 11,609,869	\$ 12,745,900
LIABILITIES AND FUND BALANCE						
Liabilities:						
Vouchers payable	293,705	571,604	127,928		1,043,894	590,513
Accrued liabilities	243,713	2,271	2,130		255,655	304,299
Due to other funds	75,499	48,978	32,208	1,726	206,133	563,401
Due to component units	50				50	7,800
Unearned revenue	8,589			54,783	63,372	46,387
Total liabilities	621,556	622,853	162,266	56,509	1,059,104	1,512,400
Fund Balances:						
Reserved For:						
Perpetual care					823,137	794,956
Endowment					109,664	95,342
Loans					97,507	128,685
Inventories and prepayments	197,397				204,896	184,135
Encumbrances	700,207	183,060	29,481		912,748	1,733,366
Unreserved, Reported In:						
General Fund - Designated	3,630,585				3,630,585	4,015,000
General Fund - Undesignated	1,339,725				1,339,725	1,304,717
Special Revenue Funds - Undesignated		247,445	560,333	47,727	2,263,087	2,414,421
Endowment - Undesignated					659,416	562,878
Total fund balances	5,867,914	430,505	589,814	47,727	10,040,765	11,233,500
Total liabilities and fund balance	\$ 6,489,470	\$ 1,053,358	\$ 752,080	\$ 104,236	\$ 11,609,869	\$ 12,745,900

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**RECONCILIATIONS OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	\$ 27,368,077	\$ 25,094,701
Personal property taxes receivable are not expected to be collected in the current period and, therefore, deferred in governmental funds (presented net of allowance for uncollectibles).	3,480	8,665
Accrued interest payable on long term debt is recognized in governmental funds when paid and not when accrued.	(40,459)	(27,014)
Long-term portion of accrued sick and vacation pay liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(350,233)	(414,587)
Bond and loan indebtedness are recognized in the governmental funds when paid and not when accrued.	(1,857,863)	(771,188)
Internal Service Funds (Information Technology Fund and Fire Dept. Motor Pool) are used by management to charge the costs of management information systems to individual funds and to maintain Fire Dept. vehicles. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.	<u>919,382</u>	<u>445,416</u>
Net differences	26,042,384	24,335,993
Total fund balance in governmental funds	<u>10,040,765</u>	<u>11,322,782</u>
Total net assets of governmental activities	<u>\$ 36,083,149</u>	<u>\$ 35,658,775</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public-Purpose</u>	<u>Other Governmental Funds</u>	<u>2008</u>	<u>Totals Governmental Funds 2007</u>
Revenues:							
Taxes	\$ 6,804,828	\$	\$	\$	\$ 453,210	\$ 7,258,038	\$ 6,976,298
Other tax related revenue	148,386					148,386	100,373
Licenses and permits	270,139					270,139	279,866
Intergovernmental -- Federal					101,854	101,854	354,865
Intergovernmental -- State	2,439,186	1,021,531	381,480			3,842,197	4,616,318
Charges for services	70,879					70,879	74,099
Use and admission charges	343,271					343,271	340,765
Fines and fees	259,035					259,035	248,759
Investment earnings	291,900	83,255	3,439	320	121,193	500,107	549,528
Fee Trust -- for beautification purposes				1,169,690		1,169,690	1,173,270
Other	631,757	48,748		47,301	75,401	803,207	920,062
Special assessments							109,075
Contribution from DDA					127,000	127,000	12,000
Public contributions					255,400	255,400	496,028
Administrative fees					60,184	60,184	129,097
Total revenues	<u>11,259,381</u>	<u>1,153,534</u>	<u>384,919</u>	<u>1,217,311</u>	<u>1,194,242</u>	<u>15,209,387</u>	<u>16,380,403</u>
Expenditures:							
Current:							
General government	2,061,328					2,061,328	2,056,289
Public safety	5,015,866				79,930	5,095,796	5,197,748
Public works	1,040,754					1,040,754	1,032,473
Culture and recreation	3,912,022					3,912,022	3,078,788
Other services	1,152,741			47,260	11,765	1,211,766	773,074
Community/Economic Development					550,344	550,344	537,168
Highways, streets, and bridges		2,042,897	897,577			2,940,474	2,009,137
Debt Service:							
Principal retirement	151,531					151,531	113,072
Interest and fiscal charges	22,708					22,708	31,167
Total expenditures	<u>13,356,950</u>	<u>2,042,897</u>	<u>897,577</u>	<u>47,260</u>	<u>642,039</u>	<u>16,986,723</u>	<u>14,828,916</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,097,569)</u>	<u>(889,363)</u>	<u>(512,658)</u>	<u>1,170,051</u>	<u>552,203</u>	<u>(1,777,336)</u>	<u>1,551,487</u>

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public-Purpose</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u> <u>2008</u>	<u>2007</u>
Other financing sources (uses):							
Transfers in	\$ 1,257,364	\$	\$ 713,875	\$	\$ 879,000	\$ 2,850,239	\$ 1,860,358
Transfers out	(507,399)	(1,129,000)		(1,169,122)	(552,117)	(3,357,638)	(2,091,558)
Bond/Note Proceeds	<u>1,092,000</u>					<u>1,092,000</u>	
Total other financing sources (uses)	<u>1,841,965</u>	<u>(1,129,000)</u>	<u>713,875</u>	<u>(1,169,122)</u>	<u>326,883</u>	<u>584,601</u>	<u>(231,200)</u>
Net change in fund balance	(255,604)	(2,018,363)	201,217	929	879,086	(1,192,735)	1,320,287
Fund balances at beginning of year	6,123,518	2,448,868	388,597	46,798	2,315,001	11,322,782	9,913,213
Adjustment of prior year receivable					(89,282)		
Fund balances at end of year	<u>\$ 5,867,914</u>	<u>\$ 430,505</u>	<u>\$ 589,814</u>	<u>\$ 47,727</u>	<u>\$ 3,104,805</u>	<u>\$ 10,040,765</u>	<u>\$ 11,233,500</u>

CITY OF ADRIAN, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balances are different because:		
Net change in fund balance --	\$ (1,192,735)	\$ 1,409,569
Government funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. (Total depreciation \$1,608,379 less total capital outlay (\$3,881,755).	2,273,376	934,031
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds -- net effect on recognizing accrued personal property taxes.	(5,185)	(6,335)
This issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Note Proceeds	(1,227,000)	
Less: Principal repayment	<u>140,355</u>	<u>113,072</u>
Net	(1,086,645)	113,072
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Accrued interest -- net effect	(13,445)	4,153
Accrued long-term sick and vacation -- net effect	64,324	(101,228)
Internal Service Fund is used by management to charge the costs of management information systems to individual funds.	<u>473,966</u>	<u>132,721</u>
Change in net assets in governmental activities	<u>\$ 513,656</u>	<u>\$ 2,485,983</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF ADRIAN, MICHIGAN

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 7,067,959	\$ 7,067,959	\$ 6,804,828	\$ (263,131)
Other tax related revenue	85,000	86,000	148,386	62,386
Licenses and permits	288,800	288,800	270,139	(18,661)
Intergovernmental	2,342,000	2,425,873	2,439,186	13,313
Charges for services	92,800	87,800	70,879	(16,921)
Uses and admission charges	347,200	347,200	343,271	(3,929)
Fines and fees	273,800	273,800	259,035	(14,765)
Investment earnings	299,532	339,532	291,900	(47,632)
Miscellaneous	496,300	588,709	631,757	43,048
Contributions from DDA	10,000	10,000		(10,000)
Total revenues	<u>11,303,391</u>	<u>11,515,673</u>	<u>11,259,381</u>	<u>(256,292)</u>
Expenditures:				
Current:				
General Government:				
City Commission	141,311	149,950	133,174	16,776
City Administrator	229,891	229,891	227,844	2,047
Election Department	28,800	28,800	10,887	17,913
Finance Department	335,562	335,562	403,033	(67,471)
City Assessor	210,000	198,718	177,557	21,161
City Attorney	159,919	162,419	164,208	(1,789)
City Clerk	128,231	187,335	176,616	10,719
Human Resources	169,191	169,191	125,294	43,897
City Hall	153,100	193,100	172,095	21,005
Cemetery	455,338	455,441	470,620	(15,179)
Total general government	<u>2,011,343</u>	<u>2,110,407</u>	<u>2,061,328</u>	<u>49,079</u>
Public Safety:				
Police Department	2,958,484	2,949,384	2,983,541	(34,157)
Fire Department	1,631,314	1,803,325	1,628,190	175,135
Inspection Department	428,313	428,313	404,135	24,178
Total public safety	<u>5,018,111</u>	<u>5,181,022</u>	<u>5,015,866</u>	<u>165,156</u>
Total expenditures carried forward	<u>7,029,454</u>	<u>7,291,429</u>	<u>7,077,194</u>	<u>214,235</u>

The notes to the financial statements are an integral part of this statement.

(Page 2 of 3)
CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Total expenditures carried forward	<u>7,029,454</u>	<u>7,291,429</u>	<u>7,077,194</u>	<u>214,235</u>
Public Works:				
Department of Public Works	248,063	252,556	260,412	(7,856)
Stores - Central Supply		975	(14,171)	15,146
Motor Vehicle Pool	(182,800)	(181,803)	(267,378)	85,575
Engineering	127,950	211,833	244,388	(32,555)
Street Lighting	133,100	133,100	139,696	(6,596)
Winter Maintenance	3,000	5,000	4,060	940
Waste Collection and Disposal	<u>710,100</u>	<u>711,553</u>	<u>673,747</u>	<u>37,806</u>
Total public works	<u>1,039,413</u>	<u>1,133,214</u>	<u>1,040,754</u>	<u>92,460</u>
Culture and Recreation:				
Recreation Department	1,070,476	1,149,233	1,003,934	145,299
Parks and Forestry Department	578,982	575,087	1,118,759	(543,672)
Parks and Forestry - Heritage Park	152,494	152,551	143,578	8,973
Fee Estate Maintenance	717,446	723,808	709,438	14,370
Library	<u>801,209</u>	<u>1,059,534</u>	<u>936,313</u>	<u>123,221</u>
Total culture and recreation	<u>3,320,607</u>	<u>3,660,213</u>	<u>3,912,022</u>	<u>(251,809)</u>
Other Services:				
Planning Commission	98,500	98,500	35,479	63,021
Beautification - Parks (Fee)	148,500	595,498	460,252	135,246
Park Capital	144,000	144,616	28,499	116,117
Other Projects	182,239	780,501	625,863	154,638
Other	<u>52,581</u>	<u>547,570</u>	<u>2,648</u>	<u>544,922</u>
Total other services	<u>625,820</u>	<u>2,166,685</u>	<u>1,152,741</u>	<u>1,013,944</u>
Debt Service:				
Principal	151,536	151,536	151,531	5
Interest		<u>22,738</u>	<u>22,708</u>	<u>30</u>
Total debt service	<u>151,536</u>	<u>174,274</u>	<u>174,239</u>	<u>35</u>
Total expenditures	<u>12,166,830</u>	<u>14,425,815</u>	<u>13,356,950</u>	<u>1,068,865</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(863,439)</u>	<u>(2,910,142)</u>	<u>(2,097,569)</u>	<u>812,573</u>

The notes to the financial statements are an integral part of this statement.

(Page 3 of 3)
CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Transfers in	972,439	1,389,801	1,257,364	(132,437)
Transfers out	(109,000)	(513,392)	(507,399)	5,993
Bond/Note Proceeds	<u> </u>	<u>1,092,000</u>	<u>1,092,000</u>	<u> </u>
Total other financing sources (uses)	<u>863,439</u>	<u>1,968,409</u>	<u>1,841,965</u>	<u>(126,444)</u>
Net change in fund balance	-	(941,733)	(255,604)	(686,129)
Fund balance at beginning of year	<u>6,123,518</u>	<u>6,123,518</u>	<u>6,123,518</u>	<u> </u>
Fund balance at end of year	<u>\$ 6,123,518</u>	<u>\$ 5,181,785</u>	<u>\$ 5,867,914</u>	<u>\$ (686,129)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

MAJOR STREETS SPECIAL REVENUE FUND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental – State	\$ 1,603,818	\$ 1,228,818	\$ 1,021,531	\$ (207,287)
Investment earnings	20,000	20,000	83,255	63,255
Other	<u>94,920</u>	<u>122,920</u>	<u>48,748</u>	<u>(74,172)</u>
Total revenues	<u>1,718,738</u>	<u>1,371,738</u>	<u>1,153,534</u>	<u>(218,204)</u>
Expenditures:				
Highways, streets, and bridges:				
Street construction	1,146,389	2,166,237	1,589,962	576,275
Routine maintenance – streets	184,100	184,100	122,878	61,222
Routine maintenance – bridges	21,000	21,000	5,400	15,600
Maintenance – State trunklines	61,400	61,400	82,016	(20,616)
Traffic service	123,800	125,896	60,317	65,579
Winter maintenance	64,000	64,000	125,693	(61,693)
Administration	41,259	41,259	36,897	4,362
Non-motorized transportation	<u>335,700</u>	<u>337,477</u>	<u>19,734</u>	<u>317,743</u>
Total expenditures	<u>1,977,648</u>	<u>3,001,369</u>	<u>2,042,897</u>	<u>958,472</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(258,910)</u>	<u>(1,629,631)</u>	<u>(889,363)</u>	<u>740,268</u>
Other financing sources (uses):				
Transfers out	<u>(250,000)</u>	<u>(250,000)</u>	<u>(1,129,000)</u>	<u>(879,000)</u>
Total other financing sources (uses)	<u>(250,000)</u>	<u>(250,000)</u>	<u>(1,129,000)</u>	<u>(879,000)</u>
Net change in fund balance	(508,910)	(1,879,631)	(2,018,363)	(138,732)
Fund balance – beginning of year	<u>2,448,868</u>	<u>2,448,868</u>	<u>2,448,868</u>	
Fund balance – end of year	<u>\$ 1,939,958</u>	<u>\$ 569,237</u>	<u>\$ 430,505</u>	<u>\$ (138,732)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

LOCAL STREETS SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental – State	\$ 390,000	\$ 390,000	\$ 381,480	\$ (8,520)
Special assessment		63,067		(63,067)
Investment earnings	500	500	3,439	2,939
Other	<u>63,067</u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>453,567</u>	<u>453,567</u>	<u>384,919</u>	<u>(68,648)</u>
Expenditures:				
Highways, streets, and bridges:				
Sidewalks	60,000	63,054	26,958	36,096
Street construction	592,729	886,856	517,386	369,470
Routine maintenance – streets	351,600	351,600	184,528	167,072
Routine maintenance – bridges	1,000	1,000		1,000
Traffic service	41,200	41,200	32,721	8,479
Winter maintenance	50,500	50,500	98,709	(48,209)
Administration	42,259	42,259	37,275	4,984
Other	<u>28,154</u>	<u>28,154</u>	<u> </u>	<u>28,154</u>
Total expenditures	<u>1,167,442</u>	<u>1,464,623</u>	<u>897,577</u>	<u>567,046</u>
Deficiency of revenues under expenditures	<u>(713,875)</u>	<u>(1,011,056)</u>	<u>(512,658)</u>	<u>498,398</u>
Other financing sources (uses):				
Transfers in	<u>713,875</u>	<u>713,875</u>	<u>713,875</u>	<u>-</u>
Total other financing sources (uses)	<u>713,875</u>	<u>713,875</u>	<u>713,875</u>	<u>-</u>
Net change in fund balance	-	(297,181)	201,217	498,398
Fund balance – beginning of year	<u>388,597</u>	<u>388,597</u>	<u>388,597</u>	<u> </u>
Fund balance – end of year	<u>\$ 388,597</u>	<u>\$ 91,416</u>	<u>\$ 589,814</u>	<u>\$ 498,398</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

ASSETS:	BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES	
	Wastewater System	Water System	Other Enterprise Fund	Totals Proprietary Funds 2008	2007	Information Technology	Fire Dept. Motor Pool
Current assets:							
Cash and cash equivalents	\$ 46,844	\$ 804,950	\$ 494,783	\$ 1,346,577	\$ 428,638	\$ 571,503	\$ 339,821
Investments	1,250			1,250			
Receivables:							
Accounts	415,057	427,721	2,509	845,287	1,081,123		
Special assessments			416,973	416,973	491,171		
Deferred assessments	68,501	22,629		91,130	91,130		
State of Michigan – SRF		519,045		519,045	402,410		
Due from other funds		23,440	29,400	52,840	78,133	8,822	
Due from other governments			298,920	298,920	46,204		
Due from component unit					5,000	916	
Inventories		196,010		196,010	168,925		
Prepaid expense	2,680	7,100		9,780	10,908		
	534,332	2,000,895	1,242,585	3,777,812	2,803,642	581,241	339,821
Restricted assets available for current liabilities:							
Customer deposit – cash		11,472		11,472	17,155		
Bond interest and redemp- tion account - investment	407,224			407,224	410,488		
Bond interest and redemp- tion account – cash	258,525	213,406		471,931	231,823		
Total current assets	1,200,081	2,225,773	1,242,585	4,668,439	3,463,108	-	339,821
Noncurrent assets:							
Restricted investments							
Bond reserve - cash		91,281		91,281	62,664		
Bond reserve - investment	400,377	121,157		521,534	405,302		
Replacement account – Investment	70,000	100,000		170,000	600,000		
Total noncurrent restricted assets	470,377	312,438	-	782,815	1,067,966	-	-
Capital assets:							
Land	163,164	102,928	661,368	927,460	927,460		
Building			816,207	816,207	86,864		
Utility systems	36,932,735	22,911,011	2,380,243	62,223,989	61,740,345		
Land improvements			1,582,008	1,582,008	1,582,008		
Equipment			697,127	697,127	682,607		
Less: Accumulated depreciation	(16,087,747)	(8,453,044)	(2,152,979)	(26,693,770)	(25,224,524)		
Construction in progress	9,126,820	5,470,131		14,596,951	9,383,165		
Net capital assets	30,134,972	20,031,026	3,983,974	54,149,972	49,177,925	-	-
Total noncurrent assets	30,605,349	20,343,464	3,983,974	54,932,787	50,245,891	-	-
Total assets	\$ 31,805,430	\$ 22,569,237	\$ 5,226,559	\$ 59,601,226	\$ 53,708,999	\$ 581,241	\$ 339,821

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS

**GOVERNMENTAL
ACTIVITIES**

	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Fund</u>	<u>Totals Proprietary Funds</u>		<u>Information Technology</u>	<u>Fire Dept. Motor Pool</u>
				<u>2008</u>	<u>2007</u>		
LIABILITIES:							
Current liabilities:							
Vouchers payable	\$ 163,724	\$ 670,733	\$ 261,914	\$ 1,096,371	\$ 514,459	\$ 1,090	\$ 590
Accrued liabilities	10,534	12,432	2,262	25,228	25,710		
Due to other funds	35,154	2,968	113,032	151,154	140,386		
Due to other governments			6,543	6,543	6,543		
DWRF/SRF bonds payable – Current	<u>780,000</u>	<u>245,000</u>		<u>1,025,000</u>	<u>700,000</u>		
	989,412	931,133	383,751	2,304,296	1,387,098	1,090	590
Current liabilities payable from restricted assets:							
Customer deposits payable		11,472		11,472	17,155		
Accrued interest	<u>80,936</u>	<u>29,656</u>		<u>110,592</u>	<u>80,219</u>		
Total current liabilities	<u>1,070,348</u>	<u>972,261</u>	<u>383,751</u>	<u>2,426,360</u>	<u>1,484,472</u>	<u>1,090</u>	<u>590</u>
Noncurrent liabilities:							
Accrued sick and vacation pay	38,696	55,754		94,450	114,577		
DWRF Bonds	7,090,000	9,668,731		16,758,731	12,220,000		
SRF Bonds	<u>7,980,874</u>			<u>7,980,874</u>	<u>8,411,529</u>		
Total noncurrent liabilities	<u>15,109,570</u>	<u>9,724,485</u>		<u>24,834,055</u>	<u>20,746,106</u>	-	-
Total liabilities	<u>16,179,918</u>	<u>10,696,746</u>	<u>383,751</u>	<u>27,260,415</u>	<u>22,230,578</u>	<u>1,090</u>	<u>590</u>
NET ASSETS							
Invested in capital assets, net of related debt	14,284,098	10,117,295	4,599,161	29,000,554	27,846,396		
Restricted for debt service	985,190	396,188		1,381,378	1,030,058		
Restricted for replacement	70,000	100,000		170,000	600,000		
Unrestricted	<u>286,224</u>	<u>1,259,008</u>	<u>243,647</u>	<u>1,788,879</u>	<u>2,001,967</u>	<u>580,151</u>	<u>339,231</u>
Total net assets	<u>\$ 15,625,512</u>	<u>\$ 11,872,491</u>	<u>\$ 4,842,808</u>	<u>\$ 32,340,811</u>	<u>\$ 31,478,421</u>	<u>\$ 580,151</u>	<u>\$ 339,231</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

**For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007**

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Fund</u>	<u>Totals Proprietary Funds 2008</u>	<u>2007</u>	<u>Information Technology</u>	<u>Fire Dept. Motor Pool</u>
Operating revenues:							
Charges for services	\$ 3,550,758	\$ 2,936,910	\$ 454,495	\$ 6,942,163	\$ 6,762,062	\$ 454,438	\$
Special assessments			26,985	26,895	116,075		
Miscellaneous revenues	32,549	315,756	6,067	354,372	347,238	1,699	
Total operating revenues	3,583,307	3,252,666	487,547	7,323,520	7,225,375	456,137	-
Operating expenses:							
Cost of services	2,660,423	2,344,607	798,886	5,803,916	5,687,918	324,331	61,352
Depreciation	989,181	472,905	150,454	1,612,540	1,573,941		
Total operating expenses	3,649,604	2,817,512	949,340	7,416,456	7,261,859	324,331	61,352
Operating income (loss)	(66,297)	435,154	(461,793)	(92,936)	(36,484)	131,806	(61,352)
Nonoperating revenues expenses:							
Intergovernmental – State – operating			174,411	174,411	162,521		
Intergovernmental – State – Maintenance reimbursement			2,713	2,713			
Intergovernmental – Federal			77,599	77,599	71,805		
Interest revenue	76,613	15,130	29,809	121,552	112,748		
Interest expense	(310,358)	(120,125)		(430,483)	(328,656)		
Total nonoperating revenues (expenses)	(233,745)	(104,995)	284,532	(54,208)	18,418	-	-
Income (loss) before contributions and transfers	(300,042)	330,159	(177,261)	(147,144)	(18,066)	131,806	(61,352)
Contribution from Downtown Development Authority			60,000	60,000	5,000		
Capital contribution - Grants			845,647	845,647	74,819		
Transfers in			106,816	106,816	110,411	2,929	400,583
Transfers out		(2,929)		(2,929)	(3,045)		
Change in net assets	(300,042)	327,230	835,202	862,390	169,119	134,735	339,231
Total net assets – beginning of year	15,925,554	11,545,261	4,007,606	31,478,421	31,309,302	445,416	-
Total net assets – end of year	\$ 15,625,512	\$ 11,872,491	\$ 4,842,808	\$ 32,350,811	\$ 31,478,421	\$ 580,151	\$ 339,231

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Fund</u>	<u>Totals Proprietary Funds 2008</u>	<u>2007</u>	<u>Information Technology</u>	<u>Fire Dept. Motor Pool</u>
Cash flows from operating activities:							
Cash received from customers	\$ 3,702,802	\$ 3,341,919	\$ 534,247	\$ 7,578,968	\$ 6,400,194	\$ 459,565	
Cash paid to suppliers	(2,064,629)	(834,901)	(471,706)	(3,371,236)	(3,569,765)	(326,104)	(60,762)
Cash paid to employees	(856,658)	(997,225)	(334,923)	(2,188,806)	(2,116,224)		
Net cash provided by (used in) operating activities	781,515	1,509,793	(272,382)	2,018,926	714,205	133,461	(60,762)
Cash flows from noncapital financing activities:							
Grant received – Federal			72,344	72,344	75,836		
Grant received – State			181,213	181,213	157,444		
Transfers from Other Fund			115,994	115,994	25,507	2,929	400,583
Contribution from DDA/TIFA			65,000	65,000	5,000		
Transfer to Information Tech.		(2,929)		(2,929)	(3,045)		
Special assessment revenue							
Provided to other funds					(199,085)		
Net cash provided by noncapital financing activities	-	(2,929)	434,551	431,622	61,657	2,929	400,583
Cash flows from capital and related financing activities:							
Acquisition and construction of capital assets	(705,545)	(4,991,885)		(5,697,430)	(5,835,760)		
Principal paid on general obligation bonds					(100,000)		
Interest paid and agent fees on general obligation bonds					(2,700)		
Special assessments			74,198	74,198	36,689		
Principal paid on DWRF Bonds	(375,000)	(240,000)		(615,000)	(600,000)		
Bond proceeds on DWRF Bonds		4,649,686		4,649,686			
Principal paid on SRF Bonds	(390,000)			(390,000)			
Interest paid on DWRF/ SRF Bonds	(278,485)	(121,625)		(400,110)	(328,375)		
Bond proceeds – SRF Bonds	671,755			671,755	5,513,498		
Net cash provided by (used in) capital and related financing activities	(1,077,275)	(703,824)	74,198	(1,706,901)	(1,316,648)	-	-
Cash flows from investing activities:							
Investment securities purchased		(6,789)		(6,789)	(38,113)		
Proceeds on matured investment Securities	322,571			322,571			
Interest income	76,613	15,130	29,809	121,552	109,417		
Net cash provided by investing activities	399,184	8,341	29,809	437,334	71,304	-	-

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Fund</u>	<u>Totals Proprietary Funds 2008</u>	<u>2007</u>	<u>Information Technology</u>	<u>Fire Dept. Motor Pool</u>
Net increase (decrease) in cash and cash equivalents	103,424	811,381	266,176	1,180,981	(469,482)	136,390	339,821
Cash and cash equivalents at beginning of year including \$20,667 and \$290,975 for the Waste System and the Water System Utility Funds, respectively							
Reported in restricted funds	<u>201,945</u>	<u>309,728</u>	<u>228,607</u>	<u>740,280</u>	<u>1,209,762</u>	<u>435,113</u>	
Cash and cash equivalents at end of year (including \$258,525 and \$316,159 for the Wastewater System and the Water System Funds, respectively reported in Restricted Funds)	<u>\$ 305,369</u>	<u>\$ 1,121,109</u>	<u>\$ 494,783</u>	<u>\$ 1,921,261</u>	<u>\$ 740,280</u>	<u>\$ 571,503</u>	<u>\$ 339,821</u>
Non cash investing capital and financing activities							
Contributions of capital assets from State			<u>845,647</u>	<u>845,647</u>	<u>74,819</u>		

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating income (loss)	<u>\$ (66,297)</u>	<u>\$ 435,154</u>	<u>\$ (461,793)</u>	<u>\$ (92,936)</u>	<u>\$ (36,484)</u>	<u>\$ 131,806</u>	<u>\$ (61,352)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	989,181	472,905	150,454	1,612,540	1,573,941		
Change in Assets and Liabilities:							
(Increase) decrease in accounts receivable	119,495	118,143	(1,802)	235,836	(799,523)		
(Increase) decrease in due from other funds		(23,207)	48,500	25,293	(27,233)	3,428	
(Increase) decrease in inventories		(27,085)		(27,085)	(25,895)		
(Increase) decrease in prepaid expense	454	674		1,128	(873)		
Increase (decrease) in vouchers payable	(265,888)	596,413	(162)	330,363	(15,565)	(1,773)	590
Increase (decrease) in due to County			(55)	(55)	(1,640)		
Increase (decrease) in accrued payroll and Liabilities	(1,230)	(116)	920	(426)	(493)		
Increase (decrease) in due to other funds	4,401	(35,879)	(8,444)	(39,922)	73,521		
Increase (decrease) in accrued sick and vacation	1,399	(21,526)		(20,127)	(27,126)		
Increase (decrease) in customer deposits		<u>(5,683)</u>		<u>(5,683)</u>	<u>1,575</u>		
Total adjustments	<u>847,812</u>	<u>1,074,639</u>	<u>189,411</u>	<u>2,111,862</u>	<u>750,689</u>	<u>1,655</u>	<u>590</u>
Net cash provided by (used in) operating activities	<u>\$ 781,515</u>	<u>\$ 1,509,793</u>	<u>\$ (272,382)</u>	<u>\$ 2,018,926</u>	<u>\$ 714,205</u>	<u>\$ 133,461</u>	<u>\$ (60,762)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 318,049	\$ 454,573
Total assets	<u>\$ 318,049</u>	<u>\$ 454,573</u>
 <u>LIABILITIES</u>		
Liabilities:		
Vouchers payable	\$ 11,178	\$ 14,222
Due to other taxing units	7,992	7,573
Restricted deposits	<u>298,879</u>	<u>432,778</u>
Total liabilities	<u>\$ 318,049</u>	<u>\$ 454,573</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Adrian, Michigan have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

Reporting Entity

The City of Adrian is a Michigan Municipal Corporation governed by an elected seven member commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely presented component units:

Downtown Development Authority (DDA) was created as a separate legal entity under Public Act 197 of 1975 of the State of Michigan. The purpose of the DDA is to plan and develop the downtown area of the City and to attract new businesses and residents. The governing body of DDA is appointed by the City Commission for a fixed term. The City approves the annual budget and any capital projects of DDA. Prior approval by the City is needed on any taxation by DDA. And, the City's approval is needed for any borrowing done by DDA. The Downtown Development Authority is presented as a governmental fund type.

Another discretely presented component unit is the Local Development Finance Authority (LDFA) created under Public Act 281 of 1986 of the State of Michigan. The LDFA's purpose is to work toward the elimination of the causes of unemployment, underemployment and joblessness, and to promote economic growth in the City of Adrian. The City appoints the majority of the LDFA Board of Directors. The budget of the LDFA needs the City's approval. And, the main revenue source of LDFA which is tax increment financing is a financial burden to the City. The Local Development Finance Authority is presented as a governmental fund type.

A third discretely presented component unit is the Brownfield Redevelopment Authority (BRA), approved by the Adrian City Commission on February 5, 2001, but began capturing taxes for the first time in FY 2007-08. Under the authority of Public Act 381 of 1996, as amended (MCL125.2651), the Brownfield Redevelopment Program provides funding and tax incentives for the cleanup and redevelopment of contaminated, blighted, and functionally obsolete properties with the aim of making them economically viable. As part of the program, the Brownfield Redevelopment Financing Act allows Brownfield authorities created by local units of government to use tax increment financing to pay for certain "eligible activities" on eligible property. These "eligible activities" include such efforts as baseline environmental assessments, due care activities, and additional response activities. The City appoints all members of the BRA Board of Directors and the budget of the BRA requires City approval. The main revenue source of the BRA is derived from tax increment financing, which is a financial burden to the City. The BRA authority is presented as a governmental fund type.

Separate financial statements for each of the individual component units are not available.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and State shared revenue are major sources of revenue which are considered to be susceptible to accrual. Property taxes for the City are levied July 1 of each year. The property taxes are recognized in the year levied.

State shared revenue (sales tax) received in July is accrued for proceeding year. Special assessment receivables are financed by the Capital Project Fund and are fully recognized when levied.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary funds can be either trust funds or agency funds. Trust funds use the same economic resource measurement focus and accrual basis accounting as do proprietary funds. Agency funds report only assets and liabilities and these do not have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Amounts due from other governments, loans receivable, Fee funding, and services provided associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The *Local Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The *Fee and Public-Purpose Fund* is a Special Revenue Fund that receives funds that are restricted for specific public-purpose uses and can be fully expended for the restricted purpose or purposes.

The government reports the following major proprietary funds.

The *Wastewater System Fund* accounts for the acquisition, operation, and maintenance of the City's wastewater system.

The *Water System Fund* accounts for the acquisition, operation and maintenance of the City's water system.

Additionally, the government reports the following fund types:

The *Internal Service Funds* are (*Information Technology Fund* and *Fire Department Motor Pool Fund*). The Information Technology Fund accounts for management information systems and services provided to other funds of the City on a cost reimbursement basis.

The Fire Department Motor Pool Fund accounts for maintenance, repair and operation expense on Fire Department vehicles and equipment. The funds can also be used for purchase of equipment.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The *Agency Funds* account for assets held by the City acting as an agent for individuals, private organizations, other governments, and/or other funds. There are three agency funds. The Payroll Reduction Fund handles the payment of City payroll deductions to third parties. The Property Tax Fund accounts for the collection and payment of property taxes billed and collected by the city. The Trust and Agency Fund accounts for monies received from various sources and are held by the City in a custodial or agent capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments of utility charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various function concerned.

Amounts reported as *program revenues* included 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater and Water Enterprise Funds are charges to customers for sales and services. The Wastewater and Water Enterprise Funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, liabilities, and net assets or equity.

1. Cash and investments

Cash includes amounts in cash on hand, demand deposits, and may include short-term investments with a maturity date within three months of the date acquired by the government.

Investments include Money Market Accounts, Certificates of Deposit, U.S. Agencies Securities, Mutual Funds, and Corporate Bonds.

State statutes authorize the government to invest in Money Market Accounts and Certificates of Deposit, Obligations of the U.S. Treasury, Federal Agencies, Commercial Paper, Corporate Bonds, Repurchase Agreements, and State approved Investment Pools.

Investments are stated at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. The City had no advances between funds at June 30, 2008.

Personal property taxes receivable is shown net of an allowance for uncollectibles.

Property taxes are levied as of July 1 on property values assessed as of the prior December 31. The billing is mailed on July 1 and is considered due upon receipt by the taxpayer; however, the actual due date is August 31. A lien on property occurs when property taxes are levied (July 1). On August 31, the bill becomes delinquent and penalties and interest may be assessed by the government.

Delinquent real property taxes are turned over to the County and reimbursed through a revolving fund. Therefore, property taxes receivable are not accounted for under the 60 day rule.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land improvements	20 – 50
Buildings	10 – 20
Machinery, equipment, and furnishings	5 – 35
Utility systems	50 – 100
Infrastructure	15 – 100

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Compensated absences

Vacation leave benefits for City employees are based on past services rendered and are accrued as a liability based on the expected use of the benefits through paid time off and cash payments at termination or retirement. The accrued liability for vacation time is determined under the vesting method as defined by GASB Statement 16.

Sick leave for City employees is vested to the extent that cash payments are made (up to allowable limits) to employees upon retirement. The accrued liability for sick leave is determined under the termination method as defined by GASB Statement 16.

The current portion (the amount normally expected to be liquidated with expendable available financial resources) of accrued sick and vacation pay are shown as a liability and expenditure in the applicable governmental fund types. The portion recognized in the governmental funds is only the compensated absences that have matured at year end. The entire accrued sick and vacation pay related to governmental fund types is reported in the government-wide statements.

In the proprietary funds as well as in the government-wide statements, the vested sick and vacation pay are recorded as an expense and liability of those funds as the benefits accrue to employees.

7. Long-term obligations

In the governmental-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize any bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Comparative data/reclassification

Comparative data for the prior year have been presented in order to provide an understanding of the changes in the financial position and operations of the funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation. Certain prior year figures have been restated due to a prior year adjustment (see Note 3. B.)

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Fee and Public-Purpose Special Revenue Fund and the permanent funds which are not budgeted. All annual appropriations lapse at fiscal year end.

On or before the last Tuesday of February each year, all departments of the City submit requests for appropriations to the Finance Director so that a budget may be prepared. With the first City Commission meeting in April, the proposed budget is presented to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than the second week of May.

The appropriated budget is prepared by fund, function, and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department/activity level, i.e., City Commission, Finance Department, City Clerk. The Commission made supplemental budgetary appropriations throughout the year. The supplemental budgetary appropriations made in the General Fund were in anticipation of normal activity.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations in budgetary funds

P.A. 621 of 1978, Section 18(1), as amended, of the State of Michigan provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a department/activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level i.e., City Commission, Finance Department, City Clerk. One fund had total expenditures exceed budget – OMNI Fund.

During the year ended June 30, 2008, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Fund	Appropriations	Amount of Expenditures	Budget Variance
General Fund			
Finance Department	\$ 335,562	\$ 403,033	\$ 67,471
Attorney	162,419	164,208	1,789
Cemetery	455,441	470,620	15,179
Police	2,949,384	2,983,541	34,157
Department of Public Works	252,556	260,412	7,856
Engineering	211,833	244,388	32,555
Street lighting	133,100	139,696	6,596
Parks and Forestry	575,087	1,118,759	543,672
Major Streets Fund			
Maintenance – State trunkline	61,400	82,016	20,616
Winter maintenance	64,000	125,693	61,693
Local Streets Fund			
Winter maintenance	50,500	98,709	48,209
OMNI			
Public safety, OMNI	77,400	79,930	2,530

Major Streets' additional expenditures were covered by less operating expenditures. Local Street covered additional expenditures by having less actual operating expenditures. And, General Fund covered its additional expenditures by occurring less expenditures in other areas.

C. Fund equity – designations

The City Commission has designated a part of the General Fund's unreserved fund balance for the following purposes:

1. Funding 08/09	\$ 455,585
2. Motor Vehicle Pool – Depreciation Catch-Up	700,000
3. City Hall Complex	2,000,000
4. City Complex Debt	250,000
5. Property Acquisitions	150,000
6. Telecommunication Upgrades	50,000
7. Local Grant Match	<u>25,000</u>
Total Proposed Designations	<u>\$ 3,630,585</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2008, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Investment Maturities (In Years)</u>		
		<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 - 10</u>
Money Market Accounts	\$ 641,091	\$ 641,091	\$	\$
Certificates of Deposit	2,001,036	786,650	616,500	597,886
U.S. Agencies	4,712,954	47,481	4,072,998	592,475
Mutual Fund – Cash (U.S. Government Securities)	815,923	815,923		
Class – Pooled Investments	765,870	765,870		
Total fair value	\$ 8,936,874	\$ 3,057,015	\$ 4,689,498	\$1,190,361

Class Investment Pool is through MBIA Asset Management and is a 2a 7 – Like Pool. Investments consist of U.S. Government Agencies Securities both explicitly and implicitly guaranteed, and commercial paper.

Interest Rate Risk. City is exposed to interest rate risk with over 65% of investments maturing after one year. The City's investment policy has no provision limiting interest rate risk.

Credit Risk. The City's investment policy limits investments to certificates of deposit or money market accounts; U.S. Government and U.S. Agencies Securities; commercial paper with ratings at the two highest levels established by not less than two standard rating services; and corporate bonds, mutual funds, and repurchase agreements meeting State requirements. The money market accounts and mutual funds in the City's investments at June 30, 2008 were unrated. All of the U.S. government agencies investments of \$4,712,954 and a portion of the Class Investment \$176,150 are implicitly guaranteed by the U.S. Government. This makes these investments subject to credit risk.

Concentration of Credit Risk. The City's investment policy does not limit the amount of investment with any one issuer. For investments, more than five percent of the City's holdings were with Huntington Bank (36% of the City's total investments which represent 74% of General Fund's investments) and 100% of the Water Fund Investment. Also, United Bank and Trust had 15% of the City's total investments, which was 23% of the General Fund's investments and 66% of Endowment Trust Fund's investments in the form of money market funds and U.S. Agencies securities.

In addition, Key Bank had 6% of the City's total investment, which was 74% of the investments of the Perpetual Care Fund, in the form of U.S. Agencies securities and money market accounts.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be fully returned to the City. Neither the City nor the discretely presented component units, have a policy limiting custodial credit risk, other than authorizing (through Commission approval) the depositories used. As of June 30, 2008, \$5,498,996 of the City's bank balance of \$5,869,588 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date, the discretely presented component units had exposure to custodial credit risk because \$507,977 of their bank balance of \$607,977 of was uninsured and uncollateralized.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Custodial Credit Risk – Investments. For the money market accounts and certificates of deposit which are with banks the exposure is the same as stated above for deposits. As of June 30, 2008, these investments with total balances of \$2,642,127 were exposed to custodial credit risk on the balance of \$2,312,027 as being uninsured and uncollateralized..

For the remaining investments, the risk is, in the event of failure of the counterparty, will the City be able to recover the value of its investments. The U.S. Agencies investments and Class Investment of \$5,478,824 are held by counterparties and the securities are uninsured and not registered in the name of the City, which exposes them to custodial credit risk. The mutual funds of \$815,923 are not exposed to custodial credit risk.

B. Receivables

Receivables as of year end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Major Streets</u>	<u>Wastewater System</u>	<u>Water System</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:						
Taxes	\$ 558,037	\$	\$	\$	\$	\$ 558,037
Accounts	374,338	56,983	415,057	427,721	17,983	1,292,082
Special assessments			68,501	22,629	416,973	508,103
Intergovernmental	294,511			519,045	298,920	1,112,476
Community Development loans					<u>97,507</u>	<u>97,507</u>
Gross receivables	1,226,886	56,983	483,558	969,395	831,383	3,568,205
Less: Allowance for uncollectibles	<u>454,492</u>					<u>454,492</u>
Net total Receivables	<u>\$ 772,394</u>	<u>\$ 56,983</u>	<u>\$ 483,558</u>	<u>\$ 969,395</u>	<u>\$ 831,383</u>	<u>\$3,113,713</u>

Prior Period Adjustment – Community Development:

A prior period adjustment was made to the fund balance of the Community Development Fund in the amount of \$89,282. This adjustment represents an error made in the determination of loans receivables in Community Development Fund at June 30, 2007.

A restatement of the balance sheet and statement of revenues, expenditures and change in fund balance for year ended June 30, 2007 eliminating the error follows:

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Community Development – Special Revenue Fund
Balance Sheet – June 30, 2007

<u>ASSETS</u>	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Change</u>
Cash and cash equivalents	\$ 65,401	\$ 65,401	\$ -
Investments	79,500	79,500	-
Loan receivable	<u>217,967</u>	<u>128,685</u>	<u>(89,282)</u>
Total assets	<u>\$ 362,868</u>	<u>\$ 273,586</u>	<u>\$ (89,282)</u>
<u>LIABILITIES & FUND BALANCE</u>			
Liabilities:			
Total liabilities	<u>14,504</u>	<u>14,504</u>	<u>-</u>
Fund Balance:			
Reserved for loans	217,967	128,685	(89,282)
Unreserved, undesignated	<u>130,397</u>	<u>130,397</u>	<u>-</u>
Total fund balance	<u>348,364</u>	<u>259,082</u>	<u>(89,282)</u>
Total liabilities & fund balance	<u>\$ 362,868</u>	<u>\$ 273,586</u>	<u>\$ (89,282)</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Community Development – Special Revenue Fund
Statement of Revenues, Expenditures and
Change in Fund Balance for year ended June 30, 2007

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Change</u>
REVENUES			
Intergovernmental	\$ 272,770	\$ 183,488	\$ (89,282)
Investment earnings	12,479	12,479	-
Other	175	175	-
Contribution from DDA	2,000	2,000	-
Administrative fees	<u>129,097</u>	<u>129,097</u>	<u>-</u>
Total revenues	<u>\$ 416,521</u>	<u>\$ 327,239</u>	<u>\$ (89,282)</u>
EXPENDITURES			
Total expenditures	<u>337,646</u>	<u>337,646</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>78,875</u>	<u>(10,407)</u>	<u>(89,282)</u>
Other financing resources (uses)			
Transfer in	11,712	11,712	-
Transfer out	<u>(32,915)</u>	<u>(32,915)</u>	<u>-</u>
Total other financing uses	<u>(21,203)</u>	<u>(21,203)</u>	<u>-</u>
Net change in fund balance	57,672	(31,610)	(89,282)
Fund balance -- beginning of year	<u>290,692</u>	<u>290,692</u>	<u>-</u>
Fund balance -- end of year	<u>\$ 348,364</u>	<u>\$ 259,028</u>	<u>\$ (89,282)</u>

In the financial statements for fiscal year 2007-08, the comparative prior year total column figures have been adjusted for this error.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the government funds were as follows:

	<u>Unearned Revenue</u>
Funds for training classes to be held in the future	\$ 8,589
Drug forfeiture funds not yet allocated	<u>54,783</u>
	<u>\$ 63,372</u>

C. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,571,139	\$ _____	\$ _____	\$ 7,571,139
Total capital assets, not being depreciated	<u>7,571,139</u>	<u>_____</u>	<u>-</u>	<u>7,571,139</u>
Capital assets, being depreciated:				
Land improvements	7,055,480	121,178		7,176,658
Buildings	4,622,229	1,177,000		5,799,229
Machinery, equipment, and furnishings	11,776,672	476,228	(71,872)	12,181,028
Infrastructure	<u>34,482,969</u>	<u>2,107,349</u>	<u>_____</u>	<u>36,590,318</u>
Total capital assets, being depreciated	<u>59,937,350</u>	<u>3,881,755</u>	<u>(71,872)</u>	<u>61,747,233</u>
Less: Accumulated depreciation for:				
Land improvements	(883,369)	(320,797)		(1,204,166)
Buildings	(2,873,101)	(104,193)		(2,977,294)
Machinery, equipment, and furnishings	(7,555,188)	(923,855)	71,872	(8,407,171)
Infrastructure	<u>(29,102,130)</u>	<u>(259,534)</u>	<u>_____</u>	<u>(29,361,664)</u>
Total accumulated depreciation	<u>(40,413,788)</u>	<u>(1,608,379)</u>	<u>71,872</u>	<u>(41,950,295)</u>
Total capital assets, being depreciated, net	<u>17,523,562</u>	<u>2,273,376</u>	<u>-</u>	<u>19,796,938</u>
Governmental activities, capital assets – net	<u>\$ 25,094,701</u>	<u>\$ 2,273,376</u>	<u>\$ -</u>	<u>\$ 27,368,077</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 927,460	\$	\$	\$ 927,460
Construction in progress	<u>9,383,165</u>	<u>5,213,786</u>		<u>14,596,951</u>
Total capital assets, not being depreciated	<u>10,310,675</u>	<u>5,213,786</u>		<u>15,524,411</u>
Capital assets, being depreciated:				
Land improvements	1,582,008			1,582,008
Utility systems	61,740,345	483,644		62,223,989
Machinery, equipment, and furnishings	682,607	157,817	(143,297)	697,127
Building	<u>86,864</u>	<u>729,343</u>		<u>816,207</u>
Total capital assets, being depreciated	<u>64,091,824</u>	<u>1,370,804</u>	<u>(143,297)</u>	<u>65,319,331</u>
Less: Accumulated depreciation for:				
Land improvements	(549,119)	(31,702)		(580,820)
Utility systems	(24,149,796)	(1,485,890)		(25,635,686)
Machinery, equipment, and furnishings	(521,679)	(94,951)	143,297	(473,333)
Building	<u>(3,931)</u>			<u>(3,931)</u>
Total accumulated depreciation	<u>(25,224,524)</u>	<u>(1,612,543)</u>	<u>143,297</u>	<u>(26,693,770)</u>
Total capital assets, being depreciated – net	<u>38,867,300</u>	<u>(241,739)</u>	<u>-</u>	<u>38,625,561</u>
Business-type activities, capital assets – net	<u>\$ 49,177,925</u>	<u>\$ 4,972,047</u>	<u>\$ -</u>	<u>\$ 54,149,972</u>

Interest expense of \$64,823 was capitalized in fiscal year 2007-08 due on current debt financed projects in progress.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 86,898
Public safety	158,514
Public works (includes sidewalks and street lights)	135,211
Culture and recreation (includes parks)	397,154
Other services (includes library)	574,414
Community/economic development	3,250
Highways, streets, and bridges	<u>252,938</u>

Total depreciation expense – governmental activities	<u>\$ 1,608,379</u>
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Business-type activities:

Wastewater system	\$ 989,182
Water system	472,905
Dial-A-Ride system	94,512
Automobile parking system	14,914
Storm water system	<u>41,032</u>

Total depreciation expense – business-type activities	<u>\$ 1,612,540</u>
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Construction commitments

The government has active construction projects as of June 30, 2008. The projects include street construction and paving, wastewater system improvements, lighting, and park renovation.

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Wastewater Treatment Plant upgrades	\$ 5,256,103	\$ 30,045
Water Mains	813,934	269,641
Curb and Gutter Replacement	280,203	36,699
Miles Dr. Pump Station Removal	-	85,855
Kiwanis Trail Paving		103,272
Library – Electric upgrade		110,575
Street Paving	429,686	560,693
Island Park Restroom Remodeling	<u> </u>	<u>128,850</u>
Total	<u>\$ 6,779,926</u>	<u>\$1,325,630</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

The special assessment portion of the commitment for street construction is being financed by the Capital Project Fund that will be repaid by the benefiting property owners. The City's portion of these projects are being funded by the transfer of existing resources from the Municipal Streets Fund. The commitment for improvements to the wastewater and water systems is being financed by revenue bonds secured by wastewater and water revenues.

Discretely presented component units:

Capital asset activity for the Downtown Development Authority (DDA) for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 53,494	\$	\$	\$ 53,494
Capital assets, being depreciated:				
Land improvements	1,225,000			1,225,000
Less: Accumulated depreciation for:				
Land improvements	<u>(637,000)</u>	<u>(49,000)</u>	<u> </u>	<u>(686,000)</u>
DDA capital assets – net	<u>\$ 641,494</u>	<u>\$ (49,000)</u>	<u>\$ -</u>	<u>\$ 592,494</u>

Capital asset activity for the Local Development Finance Authority (LDFA) for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Utility systems	\$ 920,000	\$	\$	\$ 920,000
Less: Accumulated depreciation for:				
Utility	<u>(142,600)</u>	<u>(9,200)</u>	<u> </u>	<u>(151,800)</u>
LDFA capital assets – net	<u>\$ 777,400</u>	<u>\$ (9,200)</u>	<u>\$ -</u>	<u>\$ 768,200</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund receivables, payables, and transfers

Primary Government

Due to/from other funds:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 272,966	Major Street	\$ 48,373
		Local Street	31,603
		Fee and Public Purpose	1,726
		Community Development	3,360
		Perpetual Care	30,590
		Wastewater	32,230
		Dial-A-Ride System	83,746
		Automobile Parking System	14,940
		Storm Water Utility	14,346
		Economic Development	11,526
		Omni	<u>526</u>
	<u>272,966</u>		<u>272,966</u>
Water	<u>23,440</u>	General	<u>23,440</u>
Endowment Trust	<u>22,659</u>	General	<u>22,659</u>
Storm Water Utility	<u>29,400</u>	General	<u>29,400</u>
Information Technology	8,822	Community Development	1,678
		Wastewater	2,924
		Water	2,968
		Major street	605
		Local street	605
		Economic development	<u>42</u>
	<u>8,822</u>		<u>8,822</u>
Total primary government	<u>\$ 357,287</u>		<u>\$ 357,287</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Due to/from primary government and component units:

<u>Receivable Entity</u>		<u>Payable Entity</u>	
General Fund	\$ <u>415</u>	Downtown Development Authority	\$ <u>415</u>
Information Technology	\$ <u>916</u>	Downtown Development Authority	\$ <u>916</u>
Downtown Development Authority	\$ <u>50</u>	General	\$ <u>50</u>

The balance of \$8,822 due to the Information Technology Fund from other funds noted above is for interfund services provided. All remaining balances resulted from time lag between the dates that (1) reimbursable expenditures occur, (2) revenues collected for another fund, and (3) payments between funds are made.

Interfund transfers:

Primary Government

	<u>Transfers In</u>						
<u>Transfers out:</u>	<u>General Fund</u>	<u>Local Streets</u>	<u>Nonmajor Government</u>	<u>Nonmajor Enterprise</u>	<u>Information Technology</u>	<u>Fire Dept. & Motor Pool</u>	<u>Total</u>
General	\$	\$	\$	\$ 106,816	\$	\$ 400,583	\$ 507,399
Major Street		250,000	879,000				1,129,000
Nonmajor Governmental	88,242	463,875					552,117
Fee and Public Purpose	1,169,122						1,169,122
Water System					2,929		2,929
	<u>\$ 1,257,364</u>	<u>\$ 713,875</u>	<u>\$ 879,000</u>	<u>\$ 106,816</u>	<u>\$ 2,929</u>	<u>\$ 400,583</u>	<u>\$ 3,360,567</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (i.e. property taxes from Municipal Street Fund to Local Street Fund) (2) use unrestricted revenues collected in the General Fund to various programs accounted for in other funds in accordance with budgetary authorizations (3) move revenues to the General Fund from other funds for General Fund programs related to the overall purpose of the transferring fund in accordance with budgetary authorizations. In fiscal year 2007-08, the Fee and Public-Purpose Fund transferred \$1,169,122 to the General Fund for City beautification projects. Also, Major Street Fund transferred to Local Street Fund \$250,000 to support local street construction projects.

E. Long-term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and land purchase. General obligation bonds have been issued for both business-type activities and component unit.

General obligation bonds are direct obligations and pledge the full faith and credit of the government.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Component Unit						
Downtown Development Authority	10/01/92	\$ 1,025,000	6.4%	3/01/2012	\$ 80,000 to 90,000	<u>\$ 320,000</u>

Primary Government

The City has purchased a parcel of land, located in Madison Township, with an installment purchase obligation from the First Federal Bank. The installment purchase is for \$1,200,000 with an interest rate of 3.64% per annum. Payments are made semiannually over a ten year term. The debt is a general obligation to the City.

The City has purchased real estate at 153 and 155 East Maumee Street, Adrian, as a component of the new Downtown City Government Complex, for \$682,000 (cash of \$140,000 plus an installment purchase loan of \$542,000.) The installment purchase is for \$542,000 with an interest rate of 3.30% per annum. Payments are made semiannually over five years with a five year balloon payment. The debt is a general obligation to the City.

The City has secured installment purchase financing from Sky Bank for \$2,000,000 for the acquisition and renovation of 381 Miles Drive, Adrian for Park and Forestry Operations. As of June 30, 2008, the City has borrowed \$550,000 on the \$2,000,000 financing for this project. Interest rate on loan is to be 5.08%.

The installment purchase obligations currently outstanding are:

	<u>Closing Date</u>	<u>Value of Contract</u>	<u>Interest</u>	<u>Final Maturity Date</u>	<u>Annual Payments</u>	<u>Balance Outstanding</u>
Governmental:						
Parks and forestry Department	5/23/03	\$ 1,200,000	3.64%	5/23/2013	\$ 105,201 to 140,394	<u>\$ 653,963</u>
City government Complex	5/5/08	\$ 542,000	3.30%	5/5/2013	\$ 32,113 to 325,551	<u>\$ 542,000</u>
Parks and forestry Department		(Financing not complete)				<u>\$ 550,000</u>

The City has, also, purchased on land contract the property at 250 West Church Street. The terms of the agreement are \$20,000 down payment with \$135,000 on land contract at an interest rate of 6.00% per annum. The land contract is to be paid over three years with a three-year balloon payment.

CITY OF ADRIAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

	<u>Closing Date</u>	<u>Value of Contract</u>	<u>Interest</u>	<u>Final Maturity Date</u>	<u>Annual Payments</u>	<u>Balance Outstanding</u>
Governmental:					\$ 10,000 to	
Parks and forestry Department	6/22/07	\$ 135,000	6.00%	6/22/2010	105,131	<u>\$ 111,900</u>

Annual debt service requirements to maturity for general obligation bonds and bank loans are as follows:

	<u>Governmental Activities</u>		<u>Component Unit – DDA</u>	
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
June 30				
2009	\$ 171,293	\$ 47,173	\$ 80,000	\$ 20,480
2010	282,653	40,943	80,000	15,360
2011	180,288	28,179	80,000	10,240
2012	186,726	21,738	80,000	5,120
2013	<u>486,903</u>	<u>14,999</u>		
	<u>\$ 1,307,863</u>	<u>\$ 153,032</u>	<u>\$ 320,000</u>	<u>\$ 51,200</u>

The final payment schedule related to the \$2,000,000 (\$550,000 outstanding at June 30, 2008) installment purchase loan is not yet available. The debt service requirements for this loan are not shown above.

Revenue bonds: The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Under three revenue bond issues – Wastewater System Revenue Bonds (September 26, 2002) of \$8,920,000; Water Supply System Revenue Bonds, Series 2003, (September 26, 2002) of \$5,665,000, and Water Revenue Bond Series 2007 (September 27, 2007) not to exceed \$7,890,000, funding is provided for improvements in the wastewater and water systems.

These bond issues were purchased by the Michigan Municipal Bond Authority under the Drinking Water Revolving Fund (DWRf). Under the purchase contract, the City has received the principal proceeds as loan draw-downs as the construction costs were incurred. Two of these three projects are now completed. At June 30, 2008, the Wastewater System DWRf loan/bond balance outstanding was \$7,475,000 and the Water System DWRf loan/bond balances were \$4,745,000 and \$5,168,731 on the uncompleted construction.

In fiscal year ended June 30, 2005, two revenue bond issues – Wastewater System Revenue Bond (September 22, 2005) of \$2,040,000; and Wastewater System Revenue Bond, Series 2007B (December 15, 2005) not to exceed \$7,090,000 for improvements to wastewater system were issued.

These bond issues were purchased by the Michigan Municipal Bond Authority under the State Revolving Fund (SRF) program. Under the purchase contract the City has received the principal proceeds as loan draw-downs as the construction costs were incurred. At June 30, 2008 the construction was complete related to Revenue Bond Wastewater System Bonds (September 22, 2005) of \$2,040,000. The balances outstanding at June 30, 2008 were \$1,955,000 and \$6,420,874, respectively.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Revenue bonds outstanding at June 30, 2008 are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Wastewater System Improvements	9/26/02	\$ 8,920,000	2.5%	10/01/2023	\$ 350,000 to 560,000	\$ 7,475,000
Water System Improvements	9/26/02	5,665,000	2.5%	10/01/2023	\$ 220,000 to 355,000	4,745,000
Wastewater Improvements	9/22/05	2,040,000	1.675%	10/1/2026	\$ 85,000 To 120,000	1,955,000
Wastewater System Improvements	12/15/05	7,090,000	1.675%	4/1/2027	305,000 to 410,000	6,420,874
Water System Improvements	9/27/07	7,890,000	2.125%		Not available	5,168,731
						<u>\$ 25,764,605</u>

Revenue bond debt service requirements to maturity for bonds issued in 2002 and September 22, 2005 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,025,000	\$ 433,006
2010	1,045,000	410,645
2011	1,070,000	387,832
2012	1,100,000	364,379
2013	1,120,000	340,368
2014 - 2018	5,965,000	1,323,219
2019 - 2023	6,650,000	637,805
2024 - 2027	<u>2,620,874</u>	<u>69,108</u>
	<u>\$ 20,595,874</u>	<u>\$ 3,966,362</u>

Final payment schedule information is not yet available on the bond issued 9/27/07. A schedule for the revenue bond debt service requirements for the 9/27/07 bond is not shown.

Reimbursement obligation

The Local Development Finance Authority, a discretely presented component unit, is obligated to pay under a reimbursement agreement a manufacturing firm for construction costs incurred in regard to on-site improvements made at the Beecher Street Industrial Park. The amount to be paid is \$800,000 with interest at 10% per annum. Principal payments are scheduled at \$50,000 per year starting June 1, 1993 thru June 1, 2008; however, the payments of principal and interest are subject to limitation by the amount on tax increment revenue available in LDFA. Insufficient tax revenues and the resulting inability to pay the debt obligations in full does not constitute a default. Nor does the City have any direct responsibility in paying any shortfalls.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

There were insufficient funds in the LDFA to pay the full obligation under this reimbursement agreement in fiscal year 2007-08 and 2006-07.

As of the expiration of the reimbursement agreement (June 1, 2008), the LDFA had no legal obligation to pay any outstanding balance under this agreement. As such, the LDFA is no longer liable for the loan balance of \$764,100.

The Local Development Finance Authority also had a reimbursement agreement with the City of Adrian. This agreement also pays back the City for costs it incurred for on-site improvements at the Beecher Street Industrial Park. This total amount was \$120,000 with interest at 8% per annum. Principal payments were scheduled at \$7,500 per year starting June 1, 1993 thru June 1, 2008. Payments of principal and interest are subject to limitation by the amount of tax increment revenue collected. However, the City had priority of payment on its obligation from LDFA over that of the manufacturing firm.

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Installment purchase					
Obligations	\$ 771,188	\$ 1,092,000	\$ 117,225	\$ 1,745,963	\$ 168,007
Land Contract		135,000	23,100	111,900	3,286
Accrued sick and vacation	457,824	1,645,450	1,534,339	568,935	218,702
Governmental activity - long-term liability	\$ 1,229,012	\$ 2,872,450	\$ 1,674,664	\$ 2,426,798	\$ 389,995
Business-type activities:					
General obligation bonds	\$	\$	\$	\$ -	\$ -
Revenue bonds	21,331,529	5,438,076	1,005,000	25,764,605	1,025,000
Total bonds payable	21,331,529	5,438,076	1,005,000	25,764,605	1,025,000
Accrued sick and vacation	114,578	644,111	664,239	94,450	-
Business-type activity - long-term liability	\$ 21,446,107	\$ 6,082,187	\$ 1,669,239	\$ 25,859,055	\$1,025,000

For the governmental activities, compensated absences are generally liquidated by the General Fund

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

CHANGES IN LONG-TERM LIABILITIES

Component units:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
DDA – general obligation					
Bonds	\$ 405,000	\$	\$ 85,000	\$ 320,000	\$ 80,000
LDFA – reimbursement					
obligation	764,100	_____	764,100	-	_____
Component units – long					
term liabilities	\$ 1,169,100	\$ -	\$ 849,100	\$ 320,000	\$ 80,000

F. Segment information

The City has revenue bonds related to the Wastewater and Water System Funds. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Since both the Wastewater System Fund and the Water System Fund are major enterprise funds in the financial statements, all pertinent data is disclosed in the basic financial statements presented.

G. Endowment Trust Fund

Various endowment gifts are received by the City and reported in the Endowment Trust Fund. The amount of endowment income and, in certain cases, portion of principal available for expenditures in accord with donor-restricted requirements was \$109,664 at June 30, 2008 and \$95,342 at June 30, 2007. All investment earnings have been derived from investments in certificates of deposit and class account. The total investment earnings (interest) and certain principal amounts create expendable balance in the Endowment Trust Fund. This balance is reported in the Statement of Net Assets in the equity section as 'Endowment: Expendable Net Assets.'

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4. OTHER INFORMATION

A. Risk management – insurance pools

The City of Adrian is a member of the Michigan Municipal Liability and Property Pool for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. Both pools are under the Michigan Municipal Program sponsored by the Michigan Municipal League.

The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess to a minimum of \$1,000,000 for specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Adrian and the pools to which it belongs.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

C. Retirement plan

Plan description

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multi-employer defined benefit pension plan, which provides retirement benefits to all full-time employees of the City. MERS is administered by its Board of Trustees. The actuary for the System is the Gabriel, Roeder, Smith & Company. The Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the City of Adrian, that authority rests with the City. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4. OTHER INFORMATION (Continued)

C. Retirement plan (Continued)

Funding policy

Employees contribute a percent of their annual compensation, as selected by the municipality. A 3%/5% contribution program was available prior to 1985 and may be continued, but not adopted after 1984. Under this program, the employee contributes 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. Non-union employees contribute 4% on all eligible wages. The City is required to contribute at an actuarially determined rate per City Division; the current rates vary from 10.05% to 33.59% of compensation per Division. The contribution requirements for the City are determined by the System's actuary.

Annual pension cost

For the year ended June 30, 2008, the City's annual pension cost of \$1,173,432 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. Also, employee contributions were \$341,818 for fiscal year 2007-08. The actuarial assumptions included -

- [a] 8.0% investment rate of return,
- [b] projected salary increases of 4.5% per year compounded annually,
- [c] additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable seniority/merit, and promotional salary increases,
- [d] the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefits E-1 or E-2, and
- [e] based under Benefits E-1 or E-2, inflation rate assumption is 2.5% annually

The actuarial value of MERS' assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a ten year period.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4. OTHER INFORMATION (Continued)

Unfunded actuarial accrued liability is amortized by level percentage of payroll contributions over a period of years. The standard amortization period to fund the unfunded liability is 28 years, with this time period reestablished with each annual actuarial valuation. Overfunded actuarial accrued liability is amortized over 10 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Recognized	Net Pension Obligation
6/30/06	\$ 624,802	100%	0
6/30/07	816,109	100%	0
6/30/08	1,173,432	100%	0

Funding Status and Funding Progress

Actuarial Accrued Liability (as of 12/31/07)

Retirees and beneficiaries currently receiving benefits	\$ 28,084,931
Terminated employees not yet receiving benefits	1,458,312
Nonvested terminated employees (pending refunds of accumulated member contributions)	107,516
Current employees --	
Accumulated employee contributions including allocated investment income	3,937,981
Employer financed	<u>14,105,158</u>

Total Actuarial Accrued Liability 47,693,898

Net Assets Available for Benefits at Actuarial Value 40,488,407

(Market Value is \$40,960,725)

Unfunded (Overfunded) Actuarial Accrued Liability \$ 7,205,491

The covered payroll (annual payroll of active employees covered by the plan) was \$7,459,599, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 96.5%. The schedule of funding process, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

D. Deferred compensation plan

The government offers its employees a deferred compensation plan (the plan of International City Management Association Retirement Corporation (ICMA)) created in accordance with Internal Revenue Code Section 457, amended August 20, 1996. The plan, available to all government employees, permits them to defer a portion of their salary, up to 100% of annual salary or \$15,500 whichever is less, until future years. Participation in the plan is optional.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4. OTHER INFORMATION (Continued)

Under the deferred compensation plan, all assets and income of the plan described in subsection (b) (6) are held in trust for the exclusive benefit of participants and their beneficiaries.

Investments are managed by the plan's trustees under one of four investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

The market value of the investments at June 30, 2008 was \$4,630,147.

Since the City has no significant administrative involvement with the assets of the deferred compensation plan, nor does it perform investment functions for the Plan, the deferred compensation plan is not shown in the financial statements.

E. Retirement Health Savings Plan

The City has a health savings plan for non-union and certain union employees. The plan provides funds (savings) to participating employees upon retirement for health insurance premiums and other health costs. The City made contributions to the plan (\$76,228 in fiscal year 2007-08) during employment, but no additional funding is provided after retirement. The plan had investments of \$451,237 at June 30, 2008.

F. New Downtown City Government Complex – Current and Future Commitments

After performing an extensive evaluation and financial analysis of the cost of renovating the current City Hall facility, which houses both administrative offices and the Police Department, cost estimates were computed to be in excess of \$9 million. As an alternative, the City has embarked upon a significant capital program to acquire properties downtown and through a public/private partnership, develop a City Government Complex that would include relocation of City Hall, renovation of the Adrian Public Library and construction of a new Police facility. Thus far, two buildings have been purchased on E. Maumee Street, at a combined cost of \$682,000 (\$140,000 cash and \$542,000 financed through an Installment Purchase Agreement), \$292,000 has been committed to the renovation of the Library, and an agreement has been reached to purchase the former Bank of Lenawee Building from First Federal Bank for \$1,250,000 (likely by Land Contract). Estimated construction and renovation costs are approximately an additional \$3 million, bringing the total project cost to between \$5 and \$6 million; significantly less than the original estimate of \$9 million to renovate the existing City Hall, which instead will be demolished after being vacated in late 2009. By transferring ownership of all improvements to the private developer, the project is eligible for Historic Preservation Tax Credits from the State of Michigan, which will result in further reducing the overall cost of the project by between 25% and 40%.

CITY OF ADRIAN, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2008

CITY'S DEFINED BENEFIT PENSION PLAN (MERS)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets [a]	Actuarial Accrued Liability (AAL) Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/00	\$ 32,184,883	\$ 31,275,689	\$ (909,194)	102.9%	\$ 6,119,081	\$ (14.8%)
12/31/01	33,449,560	33,579,131	129,571	99.6%	6,201,978	2.09%
12/31/02	33,080,222	34,645,351	1,565,129	95.4%	6,360,989	24.6%
12/31/03	34,241,034	37,001,028	2,759,994	92.5%	6,847,899	40.3%
12/31/04	35,354,281	39,798,110	4,443,829	88.8%	7,219,754	61.5%
12/31/05	36,311,897	41,147,699	4,835,802	88.2%	7,282,519	66.4%
12/31/06	38,692,642	44,565,293	5,872,651	86.8%	7,351,140	79.8%
12/31/07	40,488,407	47,693,898	7,205,491	84.8%	7,459,599	96.5%

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

SPECIAL REVENUE FUNDS

	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Vibrant Small Cities</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 70,492	\$ 4,366	\$ 169,760	\$ 167,280	\$ 1,013,488	\$ 1,425,386
Investments		42,052				42,052
Loans receivable		97,507				97,507
Accounts receivable – other	15,474					15,474
Cemetery lots						
Due from other funds						
Total assets	<u>\$ 85,966</u>	<u>\$ 143,925</u>	<u>\$ 169,760</u>	<u>\$ 167,280</u>	<u>\$ 1,013,488</u>	<u>\$ 1,580,419</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Vouchers payable	\$	\$ 1,161	\$ 46,011	\$ 3,485	\$	\$ 50,657
Accrued liabilities		7,541				7,541
Due to other funds		5,038	11,568	526		17,132
Total liabilities		<u>13,740</u>	<u>57,579</u>	<u>4,011</u>		<u>75,330</u>
Fund balances:						
Reserved for lots inventory						
Reserved for perpetual care						
Reserved for endowments						
Reserved for loans		97,507				97,507
Reserved for encumbrances						
Unreserved, undesignated	<u>85,966</u>	<u>32,678</u>	<u>112,181</u>	<u>163,269</u>	<u>1,013,488</u>	<u>1,407,582</u>
Total fund balances	<u>85,966</u>	<u>130,185</u>	<u>121,181</u>	<u>163,269</u>	<u>1,013,488</u>	<u>1,505,089</u>
Total liabilities and fund balance	<u>\$ 85,966</u>	<u>\$ 143,925</u>	<u>\$ 169,760</u>	<u>\$ 167,280</u>	<u>\$ 1,013,488</u>	<u>\$ 1,580,419</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

<u>PERMANENT FUNDS</u>			<u>Totals</u> <u>Nonmajor</u> <u>Governmental Funds</u>	
<u>Endowment</u> <u>Trust</u>	<u>Perpetual</u> <u>Care</u>	<u>Total</u>	<u>2008</u>	<u>2007</u>
\$ 9,292	\$ 25,773	\$ 35,065	\$ 1,460,451	\$ 587,381
737,129	827,954	1,565,083	1,607,135	1,497,584
		-	97,507	128,685
	7,499	7,499	15,474	12,092
<u>22,659</u>		<u>22,659</u>	<u>7,499</u>	<u>7,499</u>
			<u>22,659</u>	<u>22,659</u>
<u>\$ 769,080</u>	<u>\$ 861,226</u>	<u>\$ 1,630,306</u>	<u>\$ 3,210,725</u>	<u>\$ 2,255,900</u>
\$	\$	\$	\$ 50,657	\$ 11,520
			7,541	4,679
<u> </u>	<u>30,590</u>	<u>30,590</u>	<u>47,722</u>	<u>13,982</u>
<u> </u>	<u>30,590</u>	<u>30,590</u>	<u>105,920</u>	<u>30,181</u>
	7,499	7,499	7,499	7,499
	823,137	823,137	823,137	794,956
109,664		109,664	109,664	95,342
			97,507	128,685
				6,556
<u>659,416</u>		<u>659,416</u>	<u>2,066,998</u>	<u>1,192,681</u>
<u>769,080</u>	<u>830,636</u>	<u>1,599,716</u>	<u>3,104,805</u>	<u>2,225,719</u>
<u>\$ 769,080</u>	<u>\$ 861,226</u>	<u>\$ 1,630,306</u>	<u>\$ 3,210,725</u>	<u>\$ 2,255,900</u>

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

**For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007**

SPECIAL REVENUE FUNDS

	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Vibrant Small Cities</u>	<u>Total</u>
Revenues:						
Taxes	\$ 453,210	\$	\$	\$	\$	\$ 453,210
Intergovernmental – Federal		419	101,435			101,854
Investment earnings	11,101	6,432	4,514	4,108	9,488	35,643
Other	18		23,570	30,708		54,296
Contribution from DDA		2,000			125,000	127,000
Public contributions			162,500			162,500
Administrative fees		60,184				60,184
Total revenues	<u>464,329</u>	<u>69,035</u>	<u>292,019</u>	<u>34,816</u>	<u>134,488</u>	<u>994,687</u>
Expenditures:						
Community/Economic Development		197,932	352,412			550,344
Public safety				79,930		79,930
Other services						
Total expenditures	<u>-</u>	<u>197,932</u>	<u>352,412</u>	<u>79,930</u>		<u>630,274</u>
Excess (deficiency) of revenues over (under) expenditures	<u>464,329</u>	<u>(128,897)</u>	<u>(60,393)</u>	<u>(45,114)</u>	<u>134,488</u>	<u>364,413</u>
Other financing sources (uses):						
Transfers in					879,000	879,000
Transfers out	<u>(463,875)</u>		<u>(39,493)</u>			<u>(503,368)</u>
Total other financing sources (uses)	<u>(463,875)</u>		<u>(39,493)</u>	<u>-</u>	<u>879,000</u>	<u>375,632</u>
Net changes in fund balances	454	(128,897)	(99,886)	(45,114)	1,013,488	740,045
Fund balances – beginning of Year	85,512	348,364	212,067	208,383	-	854,326
Adjustment of prior year receivable		<u>(89,282)</u>				<u>(89,282)</u>
Fund balances – end of year	<u>\$ 85,966</u>	<u>\$ 130,185</u>	<u>\$ 112,181</u>	<u>\$ 163,269</u>	<u>\$ 1,013,488</u>	<u>\$ 1,505,089</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year ended June 30, 2007

<u>PERMANENT FUNDS</u>			<u>Totals</u> <u>Nonmajor</u> <u>Governmental Funds</u>	
<u>Endowment</u> <u>Trust</u>	<u>Perpetual</u> <u>Care</u>	<u>Total</u>	<u>2008</u>	<u>2007</u>
\$	\$	\$	\$	\$
			453,210	436,671
			101,854	354,865
31,291	54,259	85,550	121,193	83,483
	21,105	21,105	75,401	294,010
			127,000	2,000
92,900		92,900	255,400	496,028
			60,184	129,097
<u>124,191</u>	<u>75,364</u>	<u>199,555</u>	<u>1,194,242</u>	<u>1,796,154</u>
			550,344	537,168
			79,930	98,608
<u>11,765</u>		<u>11,765</u>	<u>11,765</u>	<u>680</u>
<u>11,765</u>	<u>-</u>	<u>11,765</u>	<u>642,039</u>	<u>636,456</u>
<u>112,426</u>	<u>75,364</u>	<u>187,790</u>	<u>552,203</u>	<u>1,159,698</u>
			879,000	11,712
<u>(1,566)</u>	<u>(47,183)</u>	<u>(48,749)</u>	<u>(552,117)</u>	<u>(485,415)</u>
<u>(1,566)</u>	<u>(47,183)</u>	<u>(48,749)</u>	<u>326,883</u>	<u>(473,703)</u>
110,860	28,181	139,041	879,086	685,995
658,220	802,455	1,460,675	2,315,001	1,539,724
			(89,282)	
<u>\$ 769,080</u>	<u>\$ 830,636</u>	<u>\$ 1,599,716</u>	<u>\$ 3,104,805</u>	<u>\$ 2,225,719</u>

CITY OF ADRIAN, MICHIGAN

MUNICIPAL STREET SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property tax	\$ 456,875	\$ 456,875	\$ 453,210	\$ (3,665)
Investment earnings	7,000	7,000	11,101	4,101
Other	<u> </u>	<u> </u>	<u>18</u>	<u>18</u>
Total revenues	463,875	463,875	464,329	454
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	463,875	463,875	464,329	454
Other financing uses:				
Transfers out	<u>(463,875)</u>	<u>(463,875)</u>	<u>(463,875)</u>	<u>-</u>
Net change in fund balance	-	-	454	454
Fund balance - beginning of year	<u>85,512</u>	<u>85,512</u>	<u>85,512</u>	<u>-</u>
Fund balance - end of year	<u>\$ 85,512</u>	<u>\$ 85,512</u>	<u>\$ 85,966</u>	<u>\$ 454</u>

CITY OF ADRIAN, MICHIGAN

COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE --
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 837,826	\$ 837,826	\$ 419	\$ (837,407)
Investment earnings	10,000	10,000	6,432	(3,568)
Administration fees	78,000	78,000	60,184	(17,816)
Contribution from DDA – TIF	<u> </u>	<u> </u>	<u>2,000</u>	<u>2,000</u>
Total revenues	925,826	925,826	69,035	(856,791)
Expenditures:				
Other services:				
Community development	<u>735,102</u>	<u>675,826</u>	<u>197,932</u>	<u>477,894</u>
Excess (deficiency) of revenues over (under) expenditures	192,724	250,000	(128,897)	(378,897)
Transfer out	<u>(250,000)</u>	<u>(250,000)</u>	<u>-</u>	<u>250,000</u>
Net change in fund balance	(59,276)	-	(128,897)	(128,897)
Fund balance - beginning of year	348,364	348,364	348,364	-
Adjustment of prior year: Receivable	<u> </u>	<u> </u>	<u>(82,282)</u>	<u>(82,282)</u>
Fund balance - end of year	<u>\$ 289,088</u>	<u>\$ 348,364</u>	<u>\$ 130,185</u>	<u>\$ (218,179)</u>

CITY OF ADRIAN, MICHIGAN

ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Intergovernmental	\$ 120,000	\$ 209,553	\$ 101,435	\$ (108,118)
Investment earnings	2,000	2,000	4,514	2,514
Donations	150,000	150,000	162,500	12,500
Other	<u> </u>	<u>23,570</u>	<u>23,570</u>	<u>-</u>
Total revenues	272,000	385,123	292,019	(93,104)
Expenditures:				
Other services:				
Economic development	<u>232,507</u>	<u>496,892</u>	<u>352,412</u>	<u>144,480</u>
Excess of revenues over expenditures	<u>39,493</u>	<u>(111,769)</u>	<u>(60,393)</u>	<u>51,376</u>
Other financing sources (uses):				
Transfers out	<u>(39,493)</u>	<u>(39,493)</u>	<u>(39,493)</u>	<u>-</u>
Total other financing sources (uses)	<u>(39,493)</u>	<u>(39,493)</u>	<u>(39,493)</u>	<u>-</u>
Net change in fund balance	-	(151,262)	(99,886)	51,376
Fund balance - beginning of year	<u>212,067</u>	<u>212,067</u>	<u>212,067</u>	<u>-</u>
Fund balance - end of year	<u>\$ 212,067</u>	<u>\$ 60,805</u>	<u>\$ 112,181</u>	<u>\$ 51,376</u>

CITY OF ADRIAN, MICHIGAN

OMNI SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE --
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
OMNI forfeitures	\$ 72,000	\$ 72,000	\$ 26,808	\$ (45,192)
Investment earnings	3,000	3,000	4,108	1,108
Other	<u>2,400</u>	<u>2,400</u>	<u>3,900</u>	<u>1,500</u>
Total revenues	77,400	77,400	34,816	(42,584)
Expenditures:				
Public safety, OMNI	<u>77,400</u>	<u>77,400</u>	<u>79,930</u>	<u>(2,530)</u>
Excess of revenues over expenditures	-	-	(45,114)	(45,114)
Fund balance - beginning of year	<u>208,383</u>	<u>208,383</u>	<u>208,383</u>	-
Fund balance - end of year	<u>\$ 208,383</u>	<u>\$ 208,383</u>	<u>\$ 163,269</u>	<u>\$ (45,114)</u>

CITY OF ADRIAN, MICHIGAN

VIBRANT SMALL CITIES SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment earnings	\$	\$	\$ 9,488	\$ 9,488
Contribution form DDA	<u> </u>	<u> </u>	<u>125,000</u>	<u>125,000</u>
Total revenues	-	-	134,488	134,488
Expenditures:				
Other services:	-	-	-	-
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>134,488</u>	<u>134,488</u>
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>879,000</u>	<u>879,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>879,000</u>	<u>879,000</u>
Net change in fund balance	-	-	1,013,488	1,013,488
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,013,488</u>	<u>\$ 1,013,488</u>

CITY OF ADRIAN, MICHIGAN
COMBINING STATEMENT OF NET ASSETS

NONMAJOR ENTERPRISE FUNDS

June 30, 2008
With Comparative Totals for June 30, 2007

ASSETS	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Enterprise Funds 2008	2007
Current assets:						
Cash and cash equivalents	\$ 239,726	\$	\$ 213,263	\$ 41,794	\$ 494,783	\$ 228,607
Receivables:						
Special assessments	416,973				416,973	491,171
Due from other funds				29,400	29,400	77,900
Due from other governments		298,920			298,920	46,204
Due from component unit						5,000
Accounts		2,509			2,509	707
Total current assets	<u>656,699</u>	<u>301,429</u>	<u>213,263</u>	<u>71,194</u>	<u>1,242,585</u>	<u>849,589</u>
Noncurrent assets:						
Capital assets:						
Land		22,868	638,500		661,368	661,368
Building		816,207			816,207	86,864
Utility systems				2,380,243	2,380,243	2,380,243
Land improvements			720,573	861,435	1,587,008	1,582,008
Equipment		541,094	156,033		697,127	682,607
Less: Accumulated depreciation		(322,329)	(530,274)	(1,300,376)	(2,152,979)	(2,145,819)
Net capital assets	<u>-</u>	<u>1,057,840</u>	<u>984,832</u>	<u>1,941,302</u>	<u>3,983,974</u>	<u>3,247,271</u>
Total noncurrent assets	<u>-</u>	<u>1,057,840</u>	<u>984,832</u>	<u>1,941,302</u>	<u>3,983,974</u>	<u>3,247,271</u>
Total assets	<u>\$ 656,699</u>	<u>\$ 1,359,269</u>	<u>\$ 1,198,095</u>	<u>\$ 2,012,496</u>	<u>\$ 5,226,559</u>	<u>\$ 4,096,860</u>

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds 2008	2007
LIABILITIES						
Current liabilities:						
Vouchers payable	\$	\$ 252,652	\$ 656	\$ 8,606	\$ 261,914	\$ 10,527
Accrued liabilities			328	1,934	2,262	1,398
Due to other funds		83,746	14,940	14,346	113,032	70,786
Due to other governments		<u>6,543</u>			<u>6,543</u>	<u>6,543</u>
Total current liabilities	-	<u>342,941</u>	<u>15,924</u>	<u>24,886</u>	<u>383,751</u>	<u>89,254</u>
Total liabilities	-	<u>342,941</u>	<u>15,924</u>	<u>24,886</u>	<u>383,751</u>	<u>89,254</u>
NET ASSETS						
Invested in capital assets net of related debt	656,699	1,016,328	984,832	1,941,302	4,599,161	3,247,271
Unrestricted			<u>197,339</u>	<u>46,308</u>	<u>243,647</u>	<u>760,335</u>
Total net assets	<u>\$ 656,699</u>	<u>\$ 1,016,328</u>	<u>\$ 1,182,171</u>	<u>\$ 1,987,610</u>	<u>\$ 4,842,808</u>	<u>\$ 4,007,606</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

NONMAJOR ENTERPRISE FUNDS

For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds
					2008 2007
Operating revenues:					
Charges for services	\$	\$ 93,999	\$ 67,917	\$ 292,579	\$ 454,495 \$ 456,146
Special assessment			26,985		26,985 26,065
Miscellaneous		6,067			6,067 8,674
Total operating revenues	-	100,066	94,902	292,579	487,547 490,885
Operating expenses:					
Cost of services		455,605	96,751	246,530	798,886 695,097
Depreciation		94,511	14,912	41,031	150,454 118,627
Total operating expenses	-	550,116	111,663	287,561	949,340 813,724
Operating income (loss)	-	(450,050)	(16,761)	5,018	(461,793) (322,839)
Nonoperating revenues (expenses):					
Intergovernmental – State – operating		174,411			174,411 162,521
Intergovernmental – State -- maintenance reimbursement		2,713			2,713
Intergovernmental – Federal		77,599			77,599 71,805
Interest revenue	29,698		58	53	29,809 26,463
Interest expense					(4,031)
Total nonoperating revenues (expenses)	29,698	254,723	58	53	284,532 256,758

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds 2008	2007
Income (loss) before contribution and transfers	\$ 29,698	\$ (195,327)	\$ (16,703)	\$ 5,071	\$ (177,261)	\$ (66,081)
Contribution from Downtown Development Authority(DDA)						
Contribution from DDA – TIF			10,000		10,000	5,000
Capital contribution – Grants		845,647	50,000		50,000	
Transfers in		100,816	6,000		845,647	74,819
					106,816	110,411
Change in net assets	29,698	751,136	49,297	5,071	835,202	124,149
Total net assets – beginning of year	627,001	265,192	1,132,874	1,982,539	4,007,606	3,883,457
Total net assets – end of year	\$ 656,699	\$ 1,016,328	\$ 1,182,171	\$ 1,987,610	\$ 4,842,808	\$ 4,007,606

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR ENTERPRISE FUNDS

**For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>Capital Projects Revolving Fund</u>	<u>Dial-A-Ride System</u>	<u>Automobile Parking System</u>	<u>Storm Water Utility</u>	<u>Nonmajor Enterprise Funds</u>
					<u>2008</u> <u>2007</u>
Cash flows from operating activities:					
Cash received from customers	\$	\$ 98,264	\$ 143,404	\$ 292,579	\$ 534,247
Cash paid to suppliers		(244,634)	(40,472)	(186,600)	(471,706)
Cash paid to employees		(217,181)	(43,916)	(73,826)	(334,923)
					<u>\$ 463,498</u>
Net cash provided by (used in) operating activities	-	(363,551)	59,016	32,153	(272,382)
					<u>(202,626)</u>
Cash flows from noncapital financing activities:					
Cash received – Federal		72,344			72,344
Cash received – State		181,213			181,213
Transfers from General Fund		109,994	6,000		115,994
Contributions from DDA			15,000		15,000
Special assessment revenue provided to other funds					5,000
Contributions from TIFA			50,000		(199,085)
					<u>50,000</u>
Net cash provided by noncapital financing activities	-	363,551	71,000	-	434,551
					<u>64,702</u>
Cash flows from capital and related financing activities:					
Principal paid on general obligation bonds					(100,000)
Interest paid and agent fees on general obligation bonds					(2,700)
Special assessments	74,198				74,198
					<u>36,689</u>
Net cash provided by (used in) capital and related financing activities	74,198	-	-	-	74,198
					<u>(66,011)</u>

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

	<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current assets:			
Cash		\$ 239,726	\$ 135,830
Receivables:			
Special assessments		<u>416,973</u>	<u>491,171</u>
Total assets		<u>\$ 656,699</u>	<u>\$ 627,001</u>
	<u>NET ASSETS</u>		
Net assets – unrestricted		<u>\$ 656,699</u>	<u>627,001</u>
Total net assets		<u>\$ 656,699</u>	<u>\$ 627,001</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

CAPITAL PROJECTS REVOLVING ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating revenues	\$ -	\$ -
Operating expenses	-	-
Operating income		
Nonoperating revenues (expenses):		
Interest revenue	29,698	26,387
Interest expense		(3,331)
Change in net assets	29,688	23,056
Total net assets – beginning of year	<u>627,001</u>	<u>603,945</u>
Total net assets – end of year	<u>\$ 656,699</u>	<u>\$ 627,001</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2008 and 2007
INCREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$ -	\$ -
Cash flows from noncapital financing activities:		
Special assessment revenue provided to other funds	_____	(199,085)
Net cash provided by (used in) noncapital financing activities	_____	(199,085)
Cash flows from capital and related financing activities:		
Cash received on special assessment	74,198	36,689
Net cash provided by capital and related financing activities	74,198	36,689
Cash flows from investing activities:		
Interest	29,698	23,056
Net increase in cash and cash equivalents	103,896	(139,340)
Cash and cash equivalents at beginning of year	135,830	275,170
Cash and cash equivalents at end of year	<u>\$ 239,726</u>	<u>\$ 135,830</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating income	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	-	-
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current assets:		
Due from other governments:		
Federal	\$ 13,887	\$ 8,632
State	285,033	37,572
Accounts Receivable	<u>2,509</u>	<u>707</u>
Total current assets	<u>301,429</u>	<u>46,911</u>
Noncurrent assets:		
Capital assets:		
Land	22,868	22,868
Building	816,207	86,864
Equipment	541,094	526,574
Accumulated depreciation	<u>(322,329)</u>	<u>(371,114)</u>
Net capital assets	<u>1,057,840</u>	<u>265,192</u>
Total noncurrent assets	<u>1,057,840</u>	<u>265,192</u>
Total assets	<u>\$1,359,269</u>	<u>\$ 312,103</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 252,652	\$ 7,312
Due to other governments:		
County	6,543	6,543
Due to other funds – General	<u>83,746</u>	<u>33,056</u>
Total current liabilities	<u>342,941</u>	<u>46,911</u>
Net assets:		
Invested in net assets, net of related debt	<u>1,016,328</u>	<u>265,192</u>
Total net assets	<u>\$1,016,328</u>	<u>\$ 265,192</u>

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating revenues:		
Charges for services	\$ 93,999	\$ 91,132
Other	<u>6,067</u>	<u>8,674</u>
Total operating revenues	<u>100,066</u>	<u>99,806</u>
Operating expenses:		
Cost of services:		
Salaries and wages	217,181	206,101
Fringe benefits	81,899	80,392
Contracted services	18,410	21,097
Supplies and materials	63,160	49,405
Telephone	2,592	1,580
Insurance	16,119	15,488
Advertising	377	405
Maintenance	47,398	44,641
Rent	3,718	4,394
Administrative and accounting	2,465	2,040
Depreciation	94,511	62,358
Information Technology	<u>2,286</u>	<u></u>
Total operating expenses	<u>550,116</u>	<u>487,901</u>
Operating loss	<u>(450,050)</u>	<u>(388,095)</u>
Nonoperating revenues:		
Intergovernmental – State - operating	174,411	162,521
Intergovernmental – State – maintenance reimbursement	2,713	
Intergovernmental – Federal	<u>77,599</u>	<u>71,805</u>
Total nonoperating revenues	<u>254,723</u>	<u>234,326</u>
Loss before contributions and transfers	(195,327)	(153,769)
Capital contribution – Grants	845,647	74,819
Transfers in	<u>100,816</u>	<u>91,411</u>
Change in net assets	751,136	12,461
Total net assets – beginning of year	<u>265,192</u>	<u>252,731</u>
Total net assets – end of year	<u>\$ 1,016,328</u>	<u>\$ 265,192</u>

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2008 and 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 98,264	\$ 99,419
Cash paid to suppliers	(244,634)	(214,949)
Cash paid to employees	<u>(217,181)</u>	<u>(206,101)</u>
Net cash used in operating activities	<u>(363,551)</u>	<u>(321,631)</u>
Cash flows from noncapital financing activities:		
Grant received -- Federal	72,344	75,836
Grant received -- State	181,213	157,444
Transfer from General Fund	<u>109,994</u>	<u>88,351</u>
Net cash provided by noncapital financing activities	<u>363,551</u>	<u>321,631</u>
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES**

Operating loss	\$ (450,050)	\$ (388,095)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	94,511	62,358
Change in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(1,802)	(387)
Increase (decrease) in vouchers payable	(6,210)	6,133
Increase (decrease) in due to County	<u>-</u>	<u>(1,640)</u>
Total adjustments	<u>86,499</u>	<u>66,464</u>
Net cash used in operating activities	<u>\$ (363,551)</u>	<u>\$ (321,631)</u>
Non Cash Investing, Capital and Financing Activities:		
Contribution of capital assets from State	<u>845,647</u>	<u>74,819</u>

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current assets:		
Cash and cash equivalents	\$ 213,263	\$ 83,189
Due from General Fund		48,500
Due from component unit		5,000
Total current assets	<u>213,363</u>	<u>136,689</u>
Capital assets:		
Land	638,500	638,500
Land improvements	720,573	720,573
Equipment	156,033	156,033
Less: Accumulated depreciation	<u>(530,274)</u>	<u>(515,360)</u>
Net capital assets	<u>984,832</u>	<u>999,746</u>
Total noncurrent assets	<u>984,832</u>	<u>999,746</u>
Total assets	<u>\$ 1,198,095</u>	<u>\$ 1,136,435</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 656	\$ 459
Accrued payroll	328	384
Due to General Fund	<u>14,940</u>	<u>2,718</u>
Total current liabilities	<u>15,924</u>	<u>3,561</u>
Total liabilities	<u>15,924</u>	<u>3,561</u>
Net assets:		
Invested in capital assets, net of related debt	984,832	999,746
Unrestricted	<u>197,339</u>	<u>133,128</u>
Total net assets	<u>\$ 1,182,171</u>	<u>\$ 1,132,874</u>

CITY OF ADRIAN, MICHIGAN

AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating revenues:		
Charges for services	\$ 67,917	\$ 84,416
Special assessment	<u>26,985</u>	<u>26,065</u>
Total operating revenues	<u>94,902</u>	<u>110,481</u>
Operating expenses:		
Cost of services:		
Salaries and wages	42,318	34,540
Fringe benefits	1,542	1,141
Overhead expense	157	
Supplies	11,042	12,407
Contracted services	7,104	5,100
Insurance	1,296	1,163
Electricity	11,367	10,515
Rent	20,609	11,857
Administration	1,316	
Depreciation	<u>14,912</u>	<u>15,238</u>
Total operating expenses	<u>111,663</u>	<u>91,961</u>
Operating income	<u>(16,761)</u>	<u>18,520</u>
Nonoperating revenues (expenses):		
Interest income	<u>58</u>	<u>66</u>
Total nonoperating revenues (expenses)	<u>58</u>	<u>66</u>
Income (loss) before contributions and transfers	(16,703)	18,586
Contribution from DDA	10,000	5,000
Contribution from DDA - TIF	50,000	
Transfer in – General Fund	<u>6,000</u>	<u>6,000</u>
Change in net assets	49,297	29,586
Total net assets – beginning of year	<u>1,132,874</u>	<u>1,103,288</u>
Total net assets – end of year	<u><u>\$ 1,182,171</u></u>	<u><u>\$ 1,132,874</u></u>

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2008 and 2007
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 143,404	\$ 99,481
Cash paid to suppliers	(40,472)	(42,703)
Cash paid to employees	(43,916)	(34,705)
Net cash used in operating activities	<u>59,016</u>	<u>22,073</u>
Cash flows from noncapital financing activities:		
Transfer from General Fund	6,000	(75,844)
Contribution from DDA	15,000	5,000
Contribution from TIFA	<u>50,000</u>	<u> </u>
Net cash used in noncapital financing activities	<u>71,000</u>	<u>(70,844)</u>
Cash flows from investing activities:		
Interest	<u>58</u>	<u>66</u>
Net increase (decrease) in cash and cash equivalents	130,074	(48,705)
Cash and cash equivalents at beginning of year	<u>83,189</u>	<u>131,894</u>
Cash and cash equivalents at end of year	<u>\$ 213,263</u>	<u>\$ 83,189</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
USED IN OPERATING ACTIVITIES**

Operating income (loss)	\$ (16,761)	\$ 18,520
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	14,912	15,238
Change in Assets and Liabilities:		
(Increase) decrease in due from other funds	48,500	(11,000)
(Increase) decrease in accounts receivable		
Increase (decrease) vouchers payable	198	(520)
Increase (decrease) in accrued payroll	(55)	(165)
Increase (decrease) in due to other funds	<u>12,222</u>	<u> </u>
Total adjustments	<u>75,777</u>	<u>3,553</u>
Net cash used in operating activities	<u>\$ 59,016</u>	<u>\$ 22,073</u>

CITY OF ADRIAN, MICHIGAN
STORM WATER UTILITY ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current assets:		
Cash and cash equivalents	\$ 41,794	\$ 9,588
Due from other funds – General	<u>29,400</u>	<u>29,400</u>
Total current assets	<u>71,194</u>	<u>39,988</u>
Noncurrent assets:		
Capital assets:		
Utility systems	2,380,243	2,380,243
Improvements other than buildings	861,435	861,435
Less: Accumulated depreciation	<u>(1,300,376)</u>	<u>(1,259,345)</u>
Total capital assets	<u>1,941,302</u>	<u>1,982,333</u>
Total noncurrent assets	<u>1,941,302</u>	<u>1,982,333</u>
Total assets	<u>\$ 2,012,496</u>	<u>\$ 2,021,321</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 8,606	\$ 2,756
Accrued payroll	1,934	1,014
Due to other funds – General	14,346	34,885
Due to other funds – water	<u> </u>	<u>127</u>
Total current liabilities	<u>24,886</u>	<u>38,782</u>
Net assets:		
Invested in capital asset - net of related debt	1,941,302	1,982,333
Unrestricted	<u>46,308</u>	<u>206</u>
Total net assets	<u>\$ 1,987,610</u>	<u>\$ 1,982,539</u>

CITY OF ADRIAN, MICHIGAN

STORM WATER UTILITY ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
IN FUND NET ASSETS**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating revenues:		
Charges for services	\$ 292,579	\$ 280,598
Operating expenses:		
Cost of services:		
Salaries and wages	74,746	64,742
Overhead expense	31,102	25,933
Supplies	49,465	40,562
Contracted services	36,992	19,605
Rent	36,203	27,361
Administration	18,022	14,628
Depreciation	<u>41,031</u>	<u>41,031</u>
Total operating expenses	<u>287,561</u>	<u>233,862</u>
Operating income	<u>5,018</u>	<u>46,736</u>
Nonoperating revenues (expenses):		
Interest revenue	53	10
Interest expense		(400)
Bond issuance cost/pay agent fees		<u>(300)</u>
Total nonoperating revenues (expenses)	<u>53</u>	<u>(690)</u>
Income before transfers	5,071	46,046
Transfers in		<u>13,000</u>
Change in net assets	5,071	59,046
Net assets – beginning of year	<u>1,982,539</u>	<u>1,923,493</u>
Net assets – end of year	<u>\$ 1,987,610</u>	<u>\$ 1,982,539</u>

CITY OF ADRIAN, MICHIGAN
STORM WATER UTILITY ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2008 and 2007
DECREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 292,579	\$ 264,598
Cash paid to suppliers	(186,600)	(99,517)
Cash paid to employees	<u>(73,826)</u>	<u>(68,149)</u>
Net cash provided by operating activities	<u>32,153</u>	<u>96,932</u>
Cash from noncapital financing activities:		
Transfers from General Fund	<u> </u>	<u>13,000</u>
Cash flows from financing activities:		
Interest paid and agent fees on general obligation bonds	<u> </u>	(2,700)
Bond principal payment	<u> </u>	<u>(100,000)</u>
Net cash used in capital and related financing activities	<u>-</u>	<u>(102,700)</u>
Cash flows from investing activities:		
Interest	<u>53</u>	<u>10</u>
Net decrease in cash and cash equivalents	32,206	7,242
Cash and cash equivalents at beginning of year	<u>9,588</u>	<u>2,346</u>
Cash and cash equivalents at end of year	<u>\$ 41,794</u>	<u>\$ 9,588</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 5,018	\$ 46,736
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,031	41,031
Changes in Assets and Liabilities:		
(Increase) decrease in due from other funds		(16,000)
Increase (decrease) in vouchers payable	5,850	2,316
Increase (decrease) in accrued liabilities	920	(3,407)
Increase (decrease) in due to other funds	<u>(20,666)</u>	<u>26,256</u>
Total adjustments	<u>27,135</u>	<u>50,196</u>
Net cash provided by operating activities	<u>\$ 32,153</u>	<u>\$ 96,932</u>

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2008 and 2007

<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current assets:		
Cash and cash equivalents	\$ 46,844	\$ 181,278
Investments	1,250	
Receivables:		
Accounts	415,057	534,552
Deferred assessments	68,501	68,501
State of Michigan – SRF		402,410
Prepaid expense	2,680	3,134
Restricted assets available for current liabilities:		
Bond interest and redemption account - cash	258,525	20,667
Bond interest and redemption account -- investment	<u>407,224</u>	<u>410,488</u>
Total current assets	<u>1,200,081</u>	<u>1,621,030</u>
Noncurrent assets:		
Restricted investments:		
Replacement account – investment	70,000	500,000
Bond interest and redemption account – investment	<u>400,377</u>	<u>290,934</u>
Total noncurrent restricted assets	<u>470,377</u>	<u>790,934</u>
Capital assets:		
Land	163,164	163,164
Sewer system	36,932,735	36,688,238
Less: Accumulated depreciation	(16,087,747)	(15,098,566)
Construction in progress	<u>9,126,820</u>	<u>8,665,772</u>
Net capital assets	<u>30,124,972</u>	<u>30,418,608</u>
Total noncurrent assets	<u>30,605,349</u>	<u>31,209,542</u>
Total assets	<u>\$ 31,805,430</u>	<u>\$ 32,830,572</u>

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

<u>LIABILITIES</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current liabilities:		
Vouchers payable	\$ 163,724	\$ 429,612
Accrued payroll	10,534	11,764
Due to other funds:		
General	32,230	26,011
Information Technology	2,924	4,742
DWRF Bonds payable – current	<u>780,000</u>	<u>460,000</u>
Total current liabilities	<u>989,412</u>	<u>932,129</u>
Current liabilities – payable from restricted assets:		
Accrued interest	<u>80,936</u>	<u>49,063</u>
Noncurrent liabilities:		
Accrued sick and vacation	38,696	37,297
DWRF Bonds payable	7,090,000	7,475,000
SRF Bonds payable	<u>7,980,874</u>	<u>8,411,529</u>
Total noncurrent liabilities	<u>15,109,570</u>	<u>15,923,826</u>
Total liabilities	<u>16,179,918</u>	<u>16,905,018</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	14,284,098	14,072,079
Restricted for debt service	985,190	673,026
Restricted for replacement	70,000	500,000
Unrestricted	<u>286,224</u>	<u>680,449</u>
Total net assets	<u>\$ 15,625,512</u>	<u>\$ 15,925,554</u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating revenues:		
Charges for services	\$ 3,550,758	\$ 3,392,142
Miscellaneous revenue	32,549	17,995
Special assessments	<u> </u>	<u>50,988</u>
Total operating revenues	<u>3,583,307</u>	<u>3,461,125</u>
Operating expenses:		
Cost of services:		
Wastewater treatment plant operation	1,467,139	1,566,713
Sanitary sewer expenses	255,296	204,078
Broad Street station expenses	44,746	43,069
Lift station expenses	26,582	38,321
Retention basis expenses	11,361	21,770
Administrative and overhead	855,299	731,688
Depreciation	<u>989,181</u>	<u>984,405</u>
Total operating expenses	<u>3,649,604</u>	<u>3,590,044</u>
Operating loss	<u>(66,297)</u>	<u>(128,919)</u>
Nonoperating revenues (expenses):		
Interest revenue	76,613	67,909
Interest expense	<u>(310,358)</u>	<u>(198,531)</u>
Total nonoperating revenues (expenses)	<u>(233,745)</u>	<u>(130,622)</u>
Change in net assets	(300,042)	(259,541)
Total net assets – beginning of year	<u>15,925,554</u>	<u>16,185,095</u>
Total net assets – end of year	<u>\$ 15,625,512</u>	<u>\$ 15,925,554</u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2008 and 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,702,802	\$ 2,865,022
Cash paid to suppliers	(2,064,629)	(1,840,534)
Cash paid to employees	<u>(856,658)</u>	<u>(806,939)</u>
Net cash provided by (used in) operating activities	<u>781,515</u>	<u>217,549</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets net of disposals	(705,545)	(5,419,908)
Interest expense	(278,485)	(200,812)
Bond proceeds – SRF Bonds	671,755	5,513,498
Principal paid on DWRF Bonds	(375,000)	(365,000)
Principal paid on SRF Bonds	<u>(390,000)</u>	<u> </u>
Net cash provided by (used in) capital and related financing activities	<u>(1,077,275)</u>	<u>(472,222)</u>
Cash flows from investing activities:		
Interest	76,613	67,909
Investments purchased		(28,405)
Investment proceeds	<u>322,571</u>	<u> </u>
Net cash provided by (used in) investing activities	<u>399,184</u>	<u>39,504</u>
Net increase (decrease) in cash and cash equivalents	103,424	(215,169)
Cash and cash equivalents at beginning of year (including \$20,667 in restricted funds)	<u>201,945</u>	<u>417,114</u>
Cash and cash equivalents at end of year (including \$258,525 in restricted funds)	<u>\$ 305,369</u>	<u>\$ 201,945</u>

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2008 and 2007

RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating loss	\$ (66,297)	\$ (128,919)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	989,181	984,405
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	119,495	(596,103)
(Increase) decrease in due from other funds		
(Increase) decrease in prepaids	454	336
Increase (decrease) in vouchers payable	(265,888)	(46,206)
Increase (decrease) in accrued payroll	(1,230)	2,055
Increase (decrease) in accrued sick and vacation	1,399	(17,801)
Increase (decrease) in due to other funds	<u>4,401</u>	<u>19,782</u>
Total adjustments	<u>847,812</u>	<u>346,468</u>
Net cash provided by (used in) in operating activities	\$ <u>781,515</u>	\$ <u>217,549</u>

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current assets:		
Cash and cash equivalents	\$ 804,950	\$ 18,753
Receivables:		
Accounts	427,721	545,864
Deferred assessments	22,629	22,629
State of Michigan DWRP	519,045	
Due from other funds	23,440	233
Inventories	196,010	168,925
Prepaid expense	<u>7,100</u>	<u>7,774</u>
	2,000,895	764,178
Restricted assets available for current liabilities:		
Customer deposits – cash	11,472	17,155
Bond interest and redemption account – investment		
Bond interest and redemption account – cash	<u>213,406</u>	<u>211,156</u>
Total current assets	<u>2,225,773</u>	<u>992,489</u>
Noncurrent assets:		
Restricted investments:		
Bond reserve - cash	91,281	62,664
Bond reserve - investment	121,157	114,368
Replacement account – investment	<u>100,000</u>	<u>100,000</u>
Total noncurrent restricted assets	<u>312,438</u>	<u>277,032</u>
Capital assets:		
Land	102,928	102,928
Water system	22,911,011	22,671,864
Less: Accumulated depreciation	(8,453,044)	(7,980,139)
Construction in progress	<u>5,470,131</u>	<u>717,393</u>
Net capital assets	<u>20,031,026</u>	<u>15,512,046</u>
Total noncurrent assets	<u>20,343,464</u>	<u>15,789,078</u>
Total assets	<u>\$ 22,569,237</u>	<u>\$ 16,781,567</u>

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

<u>LIABILITIES</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current liabilities:		
Vouchers payable	\$ 670,733	\$ 74,320
Accrued payroll	12,432	12,548
Due to other funds:		
General		34,691
Information Technology	2,968	4,156
DWRF Bonds payable – current	<u>245,000</u>	<u>240,000</u>
	931,133	365,715
Current liabilities - payable from restricted assets:		
Customer deposits payable	11,472	17,155
Accrued interest	<u>29,656</u>	<u>31,156</u>
Total current liabilities	<u>972,261</u>	<u>414,026</u>
Noncurrent liabilities:		
Accrued sick and vacation	55,754	77,280
DWRF Bonds payable	<u>9,668,731</u>	<u>4,745,000</u>
Total noncurrent liabilities	<u>9,724,485</u>	<u>4,822,280</u>
Total liabilities	<u>10,696,746</u>	<u>5,236,306</u>
NET ASSETS		
Invested in capital assets, net of related debt	10,117,295	10,527,046
Restricted for debt service	396,188	357,032
Restricted for replacement	100,000	100,000
Unrestricted	<u>1,259,008</u>	<u>561,183</u>
Total net assets	<u>\$ 11,872,491</u>	<u>\$ 11,545,261</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating revenues:		
Charges for services	\$ 2,936,910	\$ 2,913,774
Miscellaneous revenues	315,756	320,569
Special assessment	<u> </u>	<u>39,022</u>
Total operating revenues	<u>3,252,666</u>	<u>3,273,365</u>
Operating expenses:		
Cost of services:		
Merchandise	53,366	37,063
Taps and service		7,757
Purification and pumping	970,612	1,035,704
Transmission and distribution	525,889	471,312
Administration and overhead	794,740	835,346
Depreciation	<u>472,905</u>	<u>470,909</u>
Total operating expenses	<u>2,817,512</u>	<u>2,858,091</u>
Operating income	<u>435,154</u>	<u>415,274</u>
Nonoperating revenues (expenses):		
Interest revenue	15,130	18,376
Interest expense	<u>(120,125)</u>	<u>(126,094)</u>
Total nonoperating revenues (expenses)	<u>(104,995)</u>	<u>(107,718)</u>
Income (loss) before transfers	330,159	307,556
Transfers out	<u>(2,929)</u>	<u>(3,045)</u>
Change in net assets	327,230	304,511
Total net assets – beginning of year	<u>11,545,261</u>	<u>11,240,750</u>
Total net assets – end of year	<u>\$ 11,872,491</u>	<u>\$ 11,545,261</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2008 and 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,341,919	\$ 3,071,674
Cash paid to suppliers	(834,901)	(1,372,062)
Cash paid to employees	<u>(997,225)</u>	<u>(1,000,330)</u>
Net cash provided by (used in) operating activities	<u>1,509,793</u>	<u>699,282</u>
Cash flows from non capital financing activities:		
Transfer to Information Technology Fund	<u>(2,929)</u>	<u>(3,045)</u>
Net cash used in capital and related related financing activities	<u>(2,929)</u>	<u>(3,045)</u>
Cash flows from capital and related financing activities:		
Proceeds received on DWRF Bonds	4,649,686	
Acquisition and construction of capital assets	(4,991,885)	(415,852)
Principal paid on DWRF Bonds	(240,000)	(235,000)
Interest and agent fees on DWRF Bonds	<u>(121,625)</u>	<u>(127,563)</u>
Net cash used in capital and related financing activities	<u>(703,824)</u>	<u>(778,415)</u>
Cash flows from investing activities:		
Purchase of investments	(6,789)	
Interest	15,130	(9,708)
Proceeds on investments	<u> </u>	<u>18,376</u>
Net cash provided by investing activities	<u>8,341</u>	<u>8,668</u>
Net increase (decrease) in cash and cash equivalents	811,381	(73,510)
Cash and cash equivalents at beginning of year (including \$290,975 in restricted funds)	<u>309,728</u>	<u>383,238</u>
Cash and cash equivalents at end of year (including \$316,159 in restricted funds)	<u>\$ 1,121,109</u>	<u>\$ 309,728</u>

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2008 and 2007

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Operating income	\$ 435,154	\$ 415,274
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	472,905	470,909
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	118,143	(203,033)
(Increase) decrease in due from other funds	(23,207)	(233)
(Increase) decrease in inventories	(27,085)	(25,895)
(Increase) decrease in prepaid expense	674	(1,209)
Increase (decrease) in vouchers payable	596,413	22,712
Increase (decrease) in accrued payroll	(116)	1,024
Increase (decrease) in accrued sick and vacation	(21,526)	(9,325)
Increase (decrease) in due to other funds	(35,879)	27,483
Increase (decrease) in customer deposits	<u>(5,683)</u>	<u>1,575</u>
Total adjustments	<u>1,074,639</u>	<u>284,008</u>
Net cash provided by (used in) operating activities	<u>\$ 1,509,793</u>	<u>\$ 699,282</u>

CITY OF ADRIAN, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS**

For Fiscal Year Ended June 30, 2008

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>
PAYROLL DEDUCTION FUND				
<u>ASSETS</u>				
Cash	\$ 14,222	\$ 160,685	\$ 163,729	\$ 11,178
<u>LIABILITIES</u>				
Vouchers payable	\$ 14,222	\$ 160,685	\$ 163,729	\$ 11,178
PROPERTY TAX FUND				
<u>ASSETS</u>				
Cash	\$ 7,573	\$ 188,590	\$ 188,171	\$ 7,992
<u>LIABILITIES</u>				
Due to other taxing units	\$ 7,573	\$ 188,590	\$ 188,171	\$ 7,992
TRUST & AGENCY FUND				
<u>ASSETS</u>				
Cash	\$ 432,778	\$ 24,230,971	\$ 24,364,870	\$ 298,879
<u>LIABILITIES</u>				
Restricted deposits	\$ 432,778	\$ 24,230,971	\$ 24,364,870	\$ 298,879
TOTAL - ALL AGENCY FUNDS				
<u>ASSETS</u>				
Cash	\$ 454,573	\$ 24,580,246	\$ 24,716,770	\$ 318,049
<u>LIABILITIES</u>				
Vouchers payable	\$ 14,222	\$ 160,685	\$ 163,729	\$ 11,178
Due to other taxing units	7,573	188,590	188,171	7,992
Restricted deposits	432,778	24,230,971	24,364,870	298,879
Total liabilities	\$ 454,573	\$ 24,580,246	\$ 24,716,770	\$ 318,049

CITY OF ADRIAN, MICHIGAN
COMBINING BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT

June 30, 2008
With Comparative Totals for June 30, 2007

SPECIAL REVENUE FUNDS

	Downtown Development Authority	Brownfield Redevelopment	LDFA - GADIC	DDA Debt	LDFA Debt	Total Discretely Presented Component Units	
ASSETS						2008	2007
Cash and cash equivalents	\$ 234,722	\$ 1,639	\$ 300,000	\$ 2,670	\$ 68,946	\$ 607,977	\$ 279,476
Investments	162,789					162,789	276,573
Loans receivable	4,261					4,261	4,683
Due from primary government	50					50	7,800
Due from component unit				14,385		14,385	
Total assets	\$ 401,822	\$ 1,639	\$ 300,000	\$ 17,055	\$ 68,946	\$ 789,462	\$ 568,529
LIABILITIES AND FUND BALANCES							
Liabilities:							
Vouchers payable	\$ 96,932	\$	\$	\$	\$	\$ 96,932	\$ 110,179
Accrued liabilities	194			16,762		16,956	15,855
Due to primary government	1,331					1,331	7,022
Due from component unit	14,385					14,385	
Total liabilities	112,842	-	-	16,762	-	129,604	133,056
Fund balances:							
Reserved for debt retirement				293		293	55,937
Reserved for encumbrances							
Unreserved, undesignated	288,980	1,639	300,000		68,946	659,565	379,536
Total fund balances	288,980	1,639	300,000	293	68,946	659,858	435,473
Total liabilities and fund balance	\$ 401,822	\$ 1,639	\$ 300,000	\$ 17,055	\$ 68,946	\$ 789,462	\$ 568,529

CITY OF ADRIAN, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES**

DISCRETELY PRESENTED COMPONENT UNIT

**For Fiscal Year Ended June 30, 2008
With Comparative Totals for Fiscal Year Ended June 30, 2007**

	<u>SPECIAL REVENUE FUNDS</u>					Total Discretely Presented Component Units	
	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment</u>	<u>LDFA - GADIC</u>	<u>DDA Debt</u>	<u>LDFA Debt</u>	<u>2008</u>	<u>2007</u>
Revenues:							
Property taxes	\$ 440,518	\$ 3,078	\$	\$	\$ 123,436	\$ 567,032	\$ 414,923
Investment earnings	13,544	1		105	1967	15,617	16,927
Other	22,585					22,585	8,382
Contribution from primary government	2,748					2,748	8,800
Public contributions			300,000			300,000	
Total revenues	<u>479,395</u>	<u>3,079</u>	<u>300,000</u>	<u>105</u>	<u>125,403</u>	<u>907,982</u>	<u>449,032</u>
Expenditures:							
Contribution Schools	94,900					94,900	
Debt Service:							
Principal retirement				85,000	7,500	92,500	85,000
Interest and fiscal charges				27,252	104,799	132,051	150,501
Contributions to primary government	187,000					187,000	17,000
Other services	<u>175,706</u>	<u>1,440</u>				<u>177,146</u>	<u>185,290</u>
Total expenditures	<u>457,606</u>	<u>1,440</u>	<u>-</u>	<u>112,252</u>	<u>112,299</u>	<u>683,597</u>	<u>437,791</u>
Excess (deficiency) of revenues over (under) expenditures	<u>21,789</u>	<u>1,639</u>	<u>300,000</u>	<u>(112,147)</u>	<u>13,104</u>	<u>224,385</u>	<u>11,241</u>
Other financing sources (uses):							
Transfers in				112,345		112,345	116,360
Transfers out	<u>(112,345)</u>					<u>(112,345)</u>	<u>(116,360)</u>
Total other financing sources (uses)	<u>(112,345)</u>	<u>-</u>	<u>-</u>	<u>112,345</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>(90,556)</u>	<u>1,639</u>	<u>300,000</u>	<u>198</u>	<u>13,104</u>	<u>224,385</u>	<u>11,241</u>
Fund balances – beginning of Year	<u>379,436</u>	<u>-</u>	<u>-</u>	<u>95</u>	<u>55,842</u>	<u>435,473</u>	<u>424,232</u>
Fund balances – end of year	<u>\$ 288,980</u>	<u>\$ 1,639</u>	<u>\$ 300,000</u>	<u>\$ 293</u>	<u>\$ 68,946</u>	<u>\$ 659,858</u>	<u>\$ 435,473</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 234,722	\$ 207,681
Investments	162,789	276,573
Accounts receivable	4,261	4,683
Due from primary government	<u>50</u>	<u>7,800</u>
Total assets	<u>\$ 401,822</u>	<u>\$ 496,737</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Vouchers payable	\$ 96,932	\$ 109,773
Due to primary government	1,331	7,022
Accrued payroll	194	406
Due to component unit	<u>14,385</u>	<u></u>
Total liabilities	<u>112,842</u>	<u>117,201</u>
Fund balance:		
Reserved for:		
Encumbrances		47,984
Unreserved:		
Undesignated	<u>288,980</u>	<u>331,552</u>
Total fund balance	<u>288,980</u>	<u>379,536</u>
Total liabilities and fund balance	<u>\$ 401,822</u>	<u>\$ 496,737</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues:		
Property taxes	\$ 440,518	\$ 292,188
Interest	13,544	15,032
Other	22,585	8,382
Contribution from Primary Government –General	<u>2,748</u>	<u>7,800</u>
Total revenues	<u>479,395</u>	<u>323,402</u>
Expenditures:		
Current:		
Other services	175,706	185,290
Contribution Schools	94,900	
Contributions to Primary Government	<u>187,000</u>	<u>17,000</u>
Total expenditures	<u>457,606</u>	<u>202,290</u>
Excess of revenues over expenditures	21,789	121,112
Other financing uses:		
Transfer out	<u>(112,345)</u>	<u>(116,360)</u>
Net change in fund balance	(90,556)	4,752
Fund balance – beginning of year	<u>379,536</u>	<u>374,784</u>
Fund balance – end of year	<u>\$ 288,980</u>	<u>\$ 379,536</u>

CITY OF ADRIAN, MICHIGAN
BROWNFIELD REDEVELOPMENT – SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT

COMPARATIVE BALANCE SHEETS

June 30, 2008 and 2007

<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash	\$ 1,639	\$ -
Total assets	<u>\$ 1,639</u>	<u>\$ -</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:	\$ -	\$ -
Fund balance:		
Unreserved:		
Undesignated	<u>1,639</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,639</u>	<u>\$ -</u>

CITY OF ADRIAN, MICHIGAN

**BROWNFIELD REDEVELOPMENT – SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues:		
Property Taxes	\$ 3,078	\$ -
Interest	<u>1</u>	<u>-</u>
Total revenues	<u>3,079</u>	<u>-</u>
Expenditures:		
Other Services:		
Other	<u>1,440</u>	<u>-</u>
Total expenditures	<u>1,440</u>	<u>-</u>
Deficiency of revenues over expenditures	1,639	-
Fund balance - beginning of year	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ 1,639</u>	<u>\$ -</u>

CITY OF ADRIAN, MICHIGAN

**LOCAL DEVELOPMENT FINANCE AUTHORITY – GADIC – SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2008 and 2007

<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash	\$ 300,000	\$ -
Total assets	<u>\$ 300,000</u>	<u>\$ -</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:	\$ -	\$ -
Fund balance:		
Unreserved:		
Undesignated	<u>300,000</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 300,000</u>	<u>\$ -</u>

CITY OF ADRIAN, MICHIGAN

**LOCAL DEVELOPMENT FINANCE AUTHORITY – GADIC – SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues:		
Public Contributions	<u>\$ 300,000</u>	<u>\$ -</u>
Total revenues	<u>300,000</u>	<u>-</u>
Expenditures:		
	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>
Deficiency of revenues over expenditures	300,000	-
Fund balance - beginning of year	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ 300,000</u>	<u>\$ -</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2008 and 2007

<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash	\$ 2,670	\$ 15,950
Due from component units	<u>14,385</u>	<u>-</u>
Total assets	<u>\$ 17,055</u>	<u>\$ 15,950</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accrued interest payable	\$ 16,762	\$ 15,855
Fund balance:		
Reserved for debt retirement	<u>293</u>	<u>95</u>
Total liabilities and fund balance	<u>\$ 17,055</u>	<u>\$ 15,950</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues:		
Interest	\$ <u>105</u>	\$ <u>151</u>
Total revenues	<u>105</u>	<u>151</u>
Expenditures:		
Debt Service:		
Principal retirement	85,000	85,000
Interest and fiscal charges	<u>27,252</u>	<u>33,425</u>
Total expenditures	<u>112,252</u>	<u>118,425</u>
Deficiency of revenues over expenditures	(112,147)	(118,274)
Other financing sources:		
Transfers from DDA – Special Revenue	<u>112,345</u>	<u>116,360</u>
Net change in fund balance	198	(1,914)
Fund balance - beginning of year	<u>95</u>	<u>2,009</u>
Fund balance - end of year	<u>\$ 293</u>	<u>\$ 95</u>

CITY OF ADRIAN, MICHIGAN

**LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2008 and 2007

<u>ASSETS</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash	\$ 68,946	\$ 55,842
Total assets	<u>\$ 68,946</u>	<u>\$ 55,842</u>
<u>FUND BALANCE</u>		
Reserved for debt retirement	\$ -	\$ 55,842
Unreserved – Undesignated (see Note 3. E)	<u>68,946</u>	<u>-</u>
Total fund balance	<u>\$ 68,946</u>	<u>\$ 55,842</u>

CITY OF ADRIAN, MICHIGAN

LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2008 and 2007

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues:		
Property taxes	\$ 123,436	\$ 123,735
Interest	<u>1,967</u>	<u>1,744</u>
Total revenues	<u>125,403</u>	<u>125,479</u>
Expenditures:		
Debt Service:		
Principal retirement	7,500	7,500
Interest	<u>104,799</u>	<u>109,576</u>
Total expenditures	<u>112,299</u>	<u>117,076</u>
Net change in fund balance	13,104	8,403
Fund balance - beginning of year	<u>55,842</u>	<u>47,439</u>
Fund balance - end of year	<u>\$ 68,946</u>	<u>\$ 55,842</u>

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CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2008

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Parks & Forestry	05/23/03	\$ 1,200,000	3.64%
Parks & Forestry Installment Purchase (381 Miles Drive)	07/10/07	\$ 2,000,000	5.08%
General Fund Land Contract (250 West Church Street)	06/22/07	\$ 135,000	6.00%
Installment Purchase (153/155 E. Maumee Street)	05/05/08	\$ 542,000	3.30%
Wastewater System RevenueBonds (DWRF Loan)	09/26/02	\$ 8,920,000	2.50%

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2008

<u>Date of Maturity</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>Annual Interest Payable</u>
11/23/07 – 05/23/08	\$ 117,225	\$	\$ 27,014
11/23/08 – 05/23/09	121,531	121,531	22,708
11/23/09 – 05/23/10	125,995	125,995	18,244
11/23/10 – 05/23/11	130,623	130,623	13,618
11/23/11 – 05/23/12	135,420	135,420	8,818
11/23/12 – 05/23/13	<u>140,394</u>	<u>140,394</u>	<u>3,844</u>
	<u>\$ 771,188</u>	<u>\$ 653,963</u>	<u>\$ 94,246</u>
Not Available	<u>\$ -</u>	<u>\$ 550,000</u>	Not Available
6/22/2008			\$ 6,900
6/22/2009		\$ 3,286	6,714
6/22/2010		<u>108,614</u>	<u>6,517</u>
	<u>\$ -</u>	<u>\$ 111,900</u>	<u>\$ 20,131</u>
4/28/2009		\$ 46,476	\$ 17,751
4/28/2010		48,044	16,182
4/28/2011		49,665	14,561
4/28/2012		51,306	12,920
4/28/2013		<u>346,509</u>	<u>11,155</u>
	<u>\$ -</u>	<u>\$ 542,000</u>	<u>\$ 72,259</u>
10/01/07 – 04/01/08	\$ 375,000	\$	\$ 191,562
10/01/08 – 04/01/09	385,000	385,000	182,062
10/01/09 – 04/01/10	395,000	395,000	172,312
10/01/10 – 04/01/11	405,000	405,000	162,312
10/01/11 – 04/01/12	415,000	415,000	152,063
10/01/12 – 04/01/13	425,000	425,000	141,563
10/01/13 – 04/01/14	435,000	435,000	130,813
10/01/14 – 04/01/15	445,000	445,000	119,812
10/01/15 – 04/01/16	460,000	460,000	108,500
10/01/16 – 04/01/17	470,000	470,000	96,875
10/01/17 – 04/01/18	480,000	480,000	85,000
10/01/18 – 04/01/19	495,000	495,000	72,813
10/01/19 – 04/01/20	505,000	505,000	60,313
10/01/20 – 04/01/21	520,000	520,000	47,500
10/01/21 – 04/01/22	535,000	535,000	34,313
10/01/22 – 04/01/23	545,000	545,000	20,813
10/01/2023	<u>560,000</u>	<u>560,000</u>	<u>7,000</u>
	<u>\$ 7,850,000</u>	<u>\$ 7,475,000</u>	<u>\$ 1,785,626</u>

CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS

June 30, 2008

<u>Date of Maturity</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>Annual Interest Payable</u>
10/01/07 – 04/01/08	\$ 240,000	\$	\$ 121,625
10/01/08 – 04/01/09	245,000	245,000	115,562
10/01/09 – 04/01/10	250,000	250,000	109,375
10/01/10 – 04/01/11	255,000	255,000	103,063
10/01/11 – 04/01/12	265,000	265,000	96,562
10/01/12 – 04/01/13	270,000	270,000	89,875
10/01/13 – 04/01/14	275,000	275,000	83,063
10/01/14 – 04/01/15	285,000	285,000	76,062
10/01/15 – 04/01/16	290,000	290,000	68,875
10/01/16 – 04/01/17	300,000	300,000	61,500
10/01/17 – 04/01/18	305,000	305,000	53,938
10/01/18 – 04/01/19	315,000	315,000	46,187
10/01/19 – 04/01/20	320,000	320,000	38,250
10/01/20 – 04/01/21	330,000	330,000	30,125
10/01/21 – 04/01/22	340,000	340,000	21,750
10/01/22 – 04/01/23	345,000	345,000	13,188
10/01/2023	<u>355,000</u>	<u>355,000</u>	<u>4,437</u>
	<u>\$ 4,985,000</u>	<u>\$ 4,745,000</u>	<u>\$ 1,133,437</u>
10/1/07 – 4/1/08	85,000		32,337
10/1/08 – 4/1/09	90,000	90,000	30,288
10/1/09 – 4/1/10	90,000	90,000	28,826
10/1/10 – 4/1/11	90,000	90,000	27,363
10/1/11 – 4/1/12	95,000	95,000	25,860
10/1/12 – 4/1/13	95,000	95,000	24,316
10/1/13 – 4/1/14	95,000	95,000	22,773
10/1/14 – 4/1/15	100,000	100,000	21,188
10/1/15 – 4/1/16	100,000	100,000	19,563
10/1/16 – 4/1/17	100,000	100,000	17,938
10/1/17 – 4/1/18	100,000	100,000	16,313
10/1/18 – 4/1/19	105,000	105,000	14,647
10/1/19 – 4/1/20	105,000	105,000	12,941
10/1/20 – 4/1/21	105,000	105,000	11,235
10/1/21 – 4/1/22	110,000	110,000	9,488
10/1/22 – 4/1/23	110,000	110,000	7,700
10/1/23 – 4/1/24	115,000	115,000	5,872
10/1/24 – 4/1/25	115,000	115,000	4,004
10/1/25 – 4/1/26	115,000	115,000	2,135
10/1/26 – 4/1/27	<u>120,000</u>	<u>120,000</u>	<u>600</u>
	<u>\$ 2,040,000</u>	<u>\$ 1,955,000</u>	<u>\$ 335,387</u>

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Wastewater System Revenue Bonds, Series 2007B (SRF Loan)	12/15/05	\$7,090,000	1.625%
Water Supply System Revenue Bonds (DWRF Loan)	9/27/07	\$7,890,000	2.125%
Accumulated vacation and sick pay - long term			
TOTAL - PRIMARY GOVERNMENT			

CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS

June 30, 2008

<u>Date of Maturity</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>Annual Interest Payable</u>
10/1/08-4/1/09	Project Not Complete	\$ 305,000	\$ 105,094
10/1/09-4/1/10		310,000	100,132
10/1/10-4/1/11		320,000	95,094
10/1/11-4/1/12		325,000	89,894
10/1/12-4/1/13		330,000	84,614
10/1/13-4/1/14		335,000	79,252
10/1/14-4/1/15		340,000	73,808
10/1/15-4/1/16		345,000	68,282
10/1/16-4/1/17		350,000	62,676
10/1/17-4/1/18		355,000	56,988
10/1/18-4/1/19		360,000	51,220
10/1/19-4/1/20		365,000	45,370
10/1/20-4/1/21		375,000	39,438
10/1/21-4/1/22		380,000	33,344
10/1/22-4/1/23		385,000	27,170
10/1/23-4/1/24		390,000	20,914
10/1/24-4/1/25		400,000	14,576
10/1/25-4/1/26		405,000	8,076
10/1/26-4/1/27		<u>45,874</u>	<u>1,494</u>
	<u>\$ 6,456,529</u>	<u>\$ 6,420,874</u>	<u>\$ 1,057,436</u>
Not Available		<u>\$ 5,168,731</u>	Not Available
	<u>\$ 572,402</u>	<u>\$ 663,385</u>	
	<u>\$ 22,675,119</u>	<u>\$ 28,285,853</u>	

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CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS

June 30, 2008

<u>COMPONENT UNITS - DISCRETELY PRESENTED</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Downtown Development Authority Bonds (Limited Tax General Obligation Bonds)	10/01/92	\$ 1,025,000	6.4
			6.4
			6.4
			6.4
			6.4
Local Development Finance Authority - Reimbursement Obligation to Third Party			
TOTAL - COMPONENT UNITS - DISCRETELY PRESENTED			

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2008

<u>Date of Maturity</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>Annual Interest Payable</u>
03/01/2008	\$ 85,000	\$	\$ 25,920
03/01/2009	80,000	80,000	20,480
03/01/2010	80,000	80,000	15,360
03/01/2011	80,000	80,000	10,240
03/01/2012	<u>80,000</u>	<u>80,000</u>	<u>5,120</u>
	<u>\$ 405,000</u>	<u>\$ 320,000</u>	<u>\$ 77,120</u>
			(Per agreement loan balance was discharged.)
	<u>\$ 764,100</u>	<u>\$ -</u>	
	<u>\$ 1,169,100</u>	<u>\$ 320,000</u>	

**CITY OF ADRIAN
FY2005-06 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

STATISTICAL SECTION

This part of the City of Adrian's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends	171-177
<i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	
Revenue Capacity	178-181
<i>These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.</i>	
Debt Capacity	182-186
<i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	187-188
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.</i>	
Operating Information	189-191
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in FY2002-03: schedules presenting government-wide information include information beginning in that year.

EXHIBIT B-1

CITY OF ADRIAN
NET ASSETS BY COMPONENT
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Governmental Activities						
Invested in Capital Assets, Net of Related Debt	\$24,050,841	\$23,761,251	\$24,026,248	\$23,276,411	\$24,323,513	\$25,510,214
Restricted	4,711,401	4,747,830	3,876,032	3,869,047	5,199,264	4,172,851
Unrestricted	7,018,815	6,856,377	6,368,174	6,027,334	6,135,998	6,400,084
Total Governmental Activities Net Assets	\$35,781,057	\$35,365,458	\$34,270,454	\$33,172,792	\$35,658,775	\$36,083,149
Business-type Activities						
Invested in Capital Assets, Net of Related Debt	\$27,647,272	\$26,559,550	\$28,022,181	\$28,323,256	\$27,846,396	\$29,000,554
Restricted	1,295,005	1,505,243	1,380,000	1,417,981	1,630,058	1,551,378
Unrestricted	3,732,120	4,894,449	2,796,672	1,568,065	2,001,967	1,788,879
Total Business-type Activities Net Assets	\$32,674,397	\$32,959,242	\$32,198,853	\$31,309,302	\$31,478,421	\$32,340,811
Primary Government						
Invested in Capital Assets, Net of Related Debt	\$51,698,113	\$50,320,801	\$52,048,429	\$51,599,667	\$52,169,909	\$54,510,768
Restricted	6,006,406	6,253,073	5,256,032	5,287,028	6,829,322	5,724,229
Unrestricted	10,750,935	11,750,826	9,164,846	7,595,399	8,137,965	8,188,963
Total Primary Government Net Assets	\$68,455,454	\$68,324,700	\$66,469,307	\$64,482,094	\$67,137,196	\$68,423,960

CITY OF ADRIAN
CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
 (accrual basis of accounting)

	FISCAL YEAR					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
EXPENSES						
Governmental Activities:						
General Government	\$1,807,739	\$1,684,439	\$2,655,280	\$2,450,722	\$2,511,362	\$1,975,257
Public Safety	4,397,169	4,601,589	4,693,255	4,912,898	5,011,563	5,029,372
Public Works	920,125	1,076,086	784,985	1,122,058	1,169,030	878,092
Culture and Recreation	2,085,016	1,915,082	2,188,354	2,447,601	1,871,000	3,699,922
Other Services	1,300,251	1,985,445	1,631,127	1,668,073	2,105,016	1,768,933
Community & Economic Development	1,143,654	619,075	278,898	599,690	543,450	557,798
Highways, Streets and Bridges	2,118,957	2,212,509	2,513,058	2,418,910	1,153,185	1,086,063
Interest on Long-Term Debt	87,538	78,673	69,369	3,112	27,014	47,359
Total Governmental Activities Expenses	\$13,860,449	\$14,172,898	\$14,814,326	\$15,623,064	\$14,391,620	\$15,042,796
Business-type Activities:						
Wastewater System	\$2,604,671	\$2,804,095	\$3,465,380	\$3,731,181	\$3,788,575	\$3,959,962
Water System	2,697,494	2,425,881	3,034,751	2,924,884	2,984,185	2,937,637
Dial-A-Ride System	413,435	440,192	490,660	455,245	487,901	550,116
Automobile Parking System	103,545	112,969	152,681	116,399	91,961	111,663
Storm Water Utility	165,359	207,851	344,579	227,688	234,562	287,561
Total Business-type Activities Expenses	\$5,984,504	\$5,990,988	\$7,488,051	\$7,455,397	\$7,587,184	\$7,846,939
Total Primary Government Expenses	\$19,844,953	\$20,163,886	\$22,302,377	\$23,078,461	\$21,978,804	\$22,889,735
PROGRAM REVENUES						
Governmental Activities:						
Charges for Services:						
General Government	\$177,973	\$395,718	\$1,082,559	\$978,001	\$1,039,539	\$1,060,215
Public Safety	451,276	286,899	368,149	559,959	437,977	424,561
Public Works	1,786	1,877	991	27,872	1,963	28,950
Culture and Recreation	302,389	474,626	534,963	494,618	474,798	346,796
Other Services	11,713	291,274	273,882	197,457	248,438	282,677
Community & Economic Development	113,158	386,548	5,543	302,534	365,518	225,048
Highways, Streets and Bridges	79,529	174,267	62,788	105,412	117,127	143,755
Operating Grants and Contributions	1,998,359	1,475,227	1,031,695	890,496	1,955,976	1,337,035
Capital Grants and Contributions	1,199,683	315,904	72,978	69,014	1,027,519	87,562
Total Governmental Activities Program Revenues	\$4,335,866	\$3,802,340	\$3,433,548	\$3,625,363	\$5,668,855	\$3,936,599

CITY OF ADRIAN
CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
 (accrual basis of accounting)

	FISCAL YEAR				
	2002-03	2003-04	2004-05	2005-06	2006-07
Business-type Activities:					
Charges for Services:					
Wastewater System	\$2,275,150	\$2,543,309	\$2,673,090	\$2,711,762	\$3,461,125
Water System	2,737,791	2,773,621	2,900,909	2,910,664	3,273,365
Dial-A-Ride System	62,697	62,691	77,507	87,590	99,806
Automobile Parking System	100,554	111,815	80,239	46,841	110,481
Storm Water Utility	252,937	263,965	363,813	281,679	280,598
Operating Grants and Contributions	208,931	205,471	222,458	228,039	239,326
Capital Grants and Contributions	245,283	50,111	0	110,932	74,819
Total Business-type Activities Program Revenues	\$5,883,343	\$6,010,983	\$6,318,016	\$6,377,507	\$7,539,520
Total Primary Government Program Revenues	\$10,219,209	\$9,813,323	\$9,751,564	\$10,002,870	\$13,208,375
NET (EXPENSES)/REVENUE					
Governmental Activities	(\$9,524,583)	(\$10,370,558)	(\$11,380,778)	(\$11,997,701)	(\$8,722,765)
Business-type Activities	(101,161)	19,995	(1,170,035)	(1,077,890)	(47,664)
Total Primary Government Net Expense	(\$9,625,744)	(\$10,350,563)	(\$12,550,813)	(\$13,075,591)	(\$8,770,429)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS					
Governmental Activities:					
Property Taxes	\$5,914,288	\$6,041,046	\$6,528,844	\$6,869,387	\$7,070,336
Sales Tax	2,621,990	2,551,255	2,435,992	2,408,301	2,383,155
Motor Vehicle Fuel Tax	1,227,987	1,337,898	1,347,902	1,309,222	1,299,759
Grants and Contributions (not restricted to specific programs)	660,115	11,008	12,346	75,785	13,336
Unrestricted Investment Earnings	248,534	170,879	236,936	358,274	549,528
Transfers	(100,433)	(157,127)	(276,246)	(120,930)	(107,366)
Total Governmental Activities	\$10,572,481	\$9,954,959	\$10,285,774	\$10,900,039	\$11,208,748
Business-type Activities:					
Unrestricted Investment Earnings	\$118,529	\$95,723	\$133,400	\$67,409	\$109,417
Transfers	100,433	169,127	276,246	120,930	107,366
Total Business-type Activities	\$218,962	\$264,850	\$409,646	\$188,339	\$216,783
Total Primary Government	\$10,791,443	\$10,219,809	\$10,695,420	\$11,088,378	\$11,425,531
CHANGE IN NET ASSETS					
Governmental Activities	\$1,047,898	(\$415,599)	(\$1,095,004)	(\$1,097,662)	\$2,485,983
Business-type Activities	117,801	284,845	(760,389)	(889,551)	169,119
Total Primary Government	\$1,165,699	(\$130,754)	(\$1,855,393)	(\$1,987,213)	\$2,655,102

CITY OF ADRIAN
FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
General Fund										
Reserved	\$107,722	\$146,824	\$150,254	\$151,423	\$1,880,375	\$927,493	\$804,255	\$485,350	\$803,801	\$897,604
Unreserved	5,273,590	5,746,147	6,647,473	7,051,521	5,588,179	6,309,600	5,758,113	5,558,816	5,319,717	4,970,310
Total General Fund	\$5,381,312	\$5,892,971	\$6,797,727	\$7,202,944	\$7,468,554	\$7,237,093	\$6,562,368	\$6,044,166	\$6,123,518	\$5,867,914
All Other Governmental Funds										
Reserved	\$465,722	\$410,381	\$438,442	\$434,369	\$1,856,968	\$2,008,395	\$1,319,835	\$1,643,008	\$2,221,965	\$1,250,348
Unreserved, Reported in:										
Special Revenue Funds	\$2,574,813	\$2,815,685	\$2,293,233	\$2,430,783	\$2,854,433	\$2,739,435	\$2,489,803	\$2,159,189	\$2,414,421	\$2,263,087
Endowment Fund	0	0	0	0	0	0	66,394	66,850	562,878	659,416
Debt Service Funds	0	0	0	0	0	0	0	0	0	0
Total All Other Governmental Fun	\$3,040,535	\$3,226,066	\$2,731,675	\$2,865,152	\$4,711,401	\$4,747,830	\$3,876,032	\$3,869,047	\$5,199,264	\$4,172,851
Total Governmental Funds	\$8,421,847	\$9,119,037	\$9,529,402	\$10,068,096	\$12,179,955	\$11,984,923	\$10,438,400	\$9,913,213	\$11,322,782	\$10,040,765

CITY OF ADRIAN
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2008-07	FY2007-08
REVENUES:										
Taxes	\$5,335,941	\$5,432,018	\$5,549,836	\$5,866,051	\$5,843,118	\$5,964,834	\$6,433,580	\$6,659,027	\$6,976,298	\$7,258,038
Other Tax Related Revenue	67,808	103,369	63,917	57,364	70,670	74,212	87,764	210,380	100,373	148,386
Licenses & Permits	152,262	155,934	173,988	178,051	280,389	184,207	262,278	486,327	279,866	270,139
Intergovernmental - Federal	136,077	230,836	731,162	519,158	800,346	88,145	13,141	281,485	444,147	101,854
Intergovernmental - State	3,932,824	4,094,986	4,318,144	4,213,929	4,160,944	3,988,935	3,958,348	3,953,373	4,616,318	3,842,197
Charges for Services	71,887	62,870	67,454	64,858	68,458	65,345	63,631	84,380	74,099	70,879
Use and Admission Charges	300,442	307,619	295,690	321,521	301,299	314,117	336,219	363,084	340,765	343,271
Fines and Fees	268,368	287,544	304,369	291,757	275,172	326,021	324,033	290,659	248,759	259,035
Investment Earnings	439,577	490,747	613,782	416,449	286,010	170,879	236,936	358,274	549,528	500,107
Fee Trust - for beautification purposes	638,527	377,319	884,164	642,379	1,415,214	1,282,212	763,001	656,057	1,173,270	1,169,690
Other	694,931	798,058	607,408	1,196,707	1,262,351	1,322,348	806,513	705,528	920,082	803,207
Special Assessments	0	0	0	207,843	246,409	130,170	24,944	84,398	109,075	0
Contribution from DDA	0	0	0	0	0	0	46,834	42,870	12,000	127,000
Public Contributions	0	0	0	0	0	0	0	0	496,028	255,400
Administrative Fees	0	0	0	0	0	0	0	0	129,097	60,184
Total Revenues	\$12,038,844	\$12,341,310	\$13,607,934	\$13,776,067	\$15,008,280	\$13,912,425	\$13,357,222	\$14,155,822	\$16,469,685	\$15,209,387
EXPENDITURES:										
General Government	\$1,455,220	\$1,353,112	\$1,437,634	\$1,505,288	\$1,822,635	\$1,772,172	\$2,189,291	\$2,089,689	\$2,056,289	\$2,061,328
Public Safety	3,947,172	4,333,602	4,026,042	4,253,144	4,533,806	4,544,000	4,818,431	4,833,758	5,197,748	5,095,796
Public Works	888,753	880,541	899,738	1,110,080	904,533	912,372	1,098,841	965,312	1,032,473	1,040,754
Culture & Recreation	1,688,061	1,794,139	1,979,850	2,114,545	2,232,404	2,272,317	2,260,361	3,093,654	3,078,788	3,912,022
Other Services	1,220,051	1,256,400	2,714,927	2,066,253	2,782,935	1,412,504	1,062,495	359,417	773,074	1,211,766
Community & Economic Development	0	0	0	0	1,424,600	615,400	276,273	595,793	537,168	550,344
Capital Outlay	1,506,421	1,817,510	1,831,498	1,992,544	1,226,250	2,144,444	2,644,688	1,867,403	2,009,137	2,940,474
Debt Service										
Principal Retirement	184,423	150,000	187,691	78,665	83,253	189,563	198,448	728,100	113,072	151,531
Interest and Fiscal Charges	29,602	17,700	66,389	54,217	49,629	87,536	78,873	41,314	31,187	22,708
Total Expenditures	\$10,919,703	\$11,603,004	\$13,143,769	\$13,174,736	\$15,060,047	\$13,950,330	\$14,627,499	\$14,554,440	\$14,828,916	\$16,986,723
Excess of Revenues over/(under) Expenditures	\$1,116,941	\$738,306	\$464,165	\$601,331	(\$51,767)	(\$37,905)	(\$1,270,277)	(\$398,616)	\$1,640,769	(\$1,777,336)
Other Financing Sources (Uses):										
Transfers In	\$1,055,232	\$755,861	\$1,371,955	\$1,163,016	\$1,888,272	\$2,384,135	\$1,385,504	\$1,441,182	\$1,860,358	\$2,850,239
Transfers Out	(1,074,956)	(793,557)	(1,422,200)	(1,222,745)	(1,988,705)	(2,521,262)	(1,661,750)	(1,567,751)	(2,091,558)	(3,357,638)
Loan Proceeds	0	0	0	0	1,200,000	0	0	0	0	1,092,000
Total Other Financing Sources (Uses)	(\$19,724)	(\$37,696)	(\$50,245)	(\$59,729)	\$1,099,567	(\$157,127)	(\$276,246)	(\$126,569)	(\$231,200)	\$584,601
NET CHANGES IN FUND BALANCES	\$1,099,217	\$700,610	\$413,920	\$541,602	\$1,047,800	(\$195,032)	(\$1,546,523)	(\$525,187)	\$1,409,569	(\$1,192,735)
Debt Service as a Percentage of Non-Capital Expenditures	2.3%	1.7%	2.2%	1.2%	1.0%	2.3%	2.3%	6.1%	1.1%	1.2%

EXHIBIT B-5

CITY OF ADRIAN
PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Function/Program						
Governmental Activities:						
Charges for Services:						
General Government	\$177,973	\$395,718	\$1,082,559	\$978,001	\$1,039,539	\$1,060,215
Public Safety	451,276	286,899	368,149	559,959	437,977	424,561
Public Works	1,786	1,877	991	27,872	1,963	28,950
Culture and Recreation	302,389	474,626	534,963	494,618	474,798	346,796
Other Services	11,713	291,274	273,882	197,457	248,438	282,677
Community & Economic Development	113,158	386,548	5,543	302,534	365,518	225,048
Highways, Streets and Bridges	79,529	174,267	62,788	105,412	117,127	143,755
Operating Grants and Contributions	1,998,359	1,475,227	1,031,695	890,496	1,955,976	1,337,035
Capital Grants and Contributions	1,199,683	315,904	72,978	69,014	1,027,519	87,562
Total Governmental Activities	\$4,335,866	\$3,802,340	\$3,433,548	\$3,625,363	\$5,668,855	\$3,936,599
Business-type Activities:						
Charges for Services:						
Wastewater System	\$2,275,150	\$2,543,309	\$2,673,090	\$2,711,762	\$3,461,125	\$3,583,307
Water System	2,737,791	2,773,621	2,900,909	2,910,664	3,273,365	3,252,666
Dial-A-Ride System	62,697	62,691	77,507	87,590	99,806	100,066
Automobile Parking System	100,554	111,815	80,239	46,841	110,481	94,902
Storm Water Utility	252,937	263,965	363,813	281,679	280,598	292,579
Operating Grants and Contributions	208,931	205,471	222,458	228,039	239,326	311,794
Capital Grants and Contributions	245,283	50,111	0	110,932	74,819	845,647
Total Business-type Activities	\$5,883,343	\$6,010,983	\$6,318,016	\$6,377,507	\$7,539,520	\$8,480,961
Total Primary Government	\$10,219,209	\$9,813,323	\$9,751,564	\$10,002,870	\$13,208,375	\$12,417,560

EXHIBIT B-6

CITY OF ADRIAN
TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

FISCAL YEAR	PROPERTY TAXES	SALES TAX	MOTOR VEH. FUEL TAX	OTHER	TOTAL
1998-99	5,335,941	2,697,145	1,235,679	67,808	9,336,573
1999-00	5,432,018	2,827,815	1,267,181	103,369	9,630,383
2000-01	5,549,836	3,010,144	1,306,000	63,917	9,929,897
2001-02	5,666,051	2,944,150	1,269,779	57,364	9,937,344
2002-03	5,843,118	2,621,990	1,488,524	70,670	10,024,302
2003-04	5,964,834	2,551,255	1,391,904	74,212	9,982,205
2004-05	6,433,580	2,435,992	1,469,145	87,764	10,426,481
2005-06	6,659,027	2,408,301	1,477,324	210,360	10,755,012
2006-07	6,976,298	2,383,155	1,299,758	100,373	10,759,584
2007-08	7,258,038	2,311,867	1,278,968	148,386	10,997,259
Change					
2007-08 over/(under) 1998-99					
Amount	\$1,922,097	(\$385,278)	\$43,289	\$80,578	\$1,660,686
Percent	36.0%	-14.3%	3.5%	118.8%	17.8%
Change					
2007-08 over/(under) 2006-07					
Amount	\$281,740	(\$71,288)	(\$20,790)	\$48,013	\$237,675
Percent	4.0%	-3.0%	-1.6%	47.8%	2.2%

EXHIBIT C-1

CITY OF ADRIAN
 ASSESSED VALUE AND TAXABLE VALUE OF REAL AND PERSONAL PROPERTY
 LAST TEN FISCAL YEARS

FISCAL YEAR	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	INDUSTRIAL PROPERTY	PERSONAL PROPERTY	TOTAL ASSESSED VALUE	LESS: TAX-EXEMPT PROPERTY	TOTAL TAXABLE VALUE	TOTAL DIRECT TAX RATE
1998-99	197,750,500	85,697,900	15,657,000	58,388,600	357,494,000	31,430,274	326,063,726	16.0524
1999-00	207,205,000	91,202,200	16,182,900	63,786,600	378,376,700	37,218,512	341,158,188	15.7750
2000-01	219,406,000	96,347,600	16,846,400	68,333,300	400,933,300	42,946,813	357,986,487	15.5828
2001-02	232,638,900	101,140,300	18,552,100	66,895,200	419,226,500	48,679,000	370,547,500	15.2443
2002-03	245,113,050	107,306,900	17,777,500	66,333,700	436,531,150	52,971,038	383,560,112	15.2426
2003-04	259,696,900	112,120,800	16,988,700	65,246,100	454,052,500	56,828,160	397,224,340	15.7340
2004-05	276,738,900	117,518,100	16,967,300	62,610,900	473,835,200	63,540,690	410,294,510	15.7340
2005-06	302,506,900	126,012,800	16,574,500	62,559,100	507,653,300	80,749,280	426,904,020	15.6912
2006-07	306,196,000	145,415,900	19,690,800	62,098,200	533,400,900	82,677,099	450,723,801	15.6039
2007-08	297,690,300	145,860,400	23,674,000	62,986,700	530,211,400	79,611,554	450,599,846	15.6039

Source: Lenawee County Equalization Report

EXHIBIT C-2

CITY OF ADRIAN
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

FISCAL YEAR	CITY DIRECT RATES					OVERLAPPING HOMESTEAD TAX RATES				
	GENERAL OBLIGATION DEBT SERVICE	SOLID WASTE COLLECTION	LOCAL STREET IMPROVEMENTS	TOTAL DIRECT TAX RATE	INTERMEDIATE SCHOOL DISTRICT*	LENAWEE COUNTY	ADRIAN SCHOOL DISTRICT	MADISON SCHOOL DISTRICT		
1998-99	0.5400	0.5000	1.0000	16.0524	6.6849	5.9178	7.2000	7.5500		
1999-00	0.5250	0.3254	0.9964	15.7750	6.6073	5.6554	7.0000	7.7000		
2000-01	0.4000	0.3258	0.9915	15.5828	7.7073	5.6420	7.0000	7.8000		
2001-02	0.0000	0.3992	0.9907	15.2443	7.6446	5.6165	6.9500	7.8000		
2002-03	0.0000	0.4338	0.9890	15.2426	7.5465	5.8191	6.0000	7.7500		
2003-04	0.0000	1.0000	0.9833	15.7340	7.4867	5.7730	6.0000	7.8000		
2004-05	0.0000	1.0000	0.9833	15.7340	7.4102	5.7145	6.0000	6.9300		
2005-06	0.0000	1.0000	0.9804	15.6912	7.2900	5.6270	9.4600	7.3000		
2006-07	0.0000	1.0000	0.9746	15.6039	7.2898	5.6270	10.3200	8.6000		
2007-08	0.0000	1.0000	0.9746	15.6039	7.2796	5.6128	10.1100	8.5626		

Source: Lenawee County Apportionment Report

Note: Adrian and Madison School Districts include State Education Tax (SET) on Homesteads, as well as
School Debt millage and School Building & Site millage.

* Includes Special Education and Vocational Education

CITY OF ADRIAN
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO

EXHIBIT C-3

			FY2007-08		FY1998-99	
<u>TAXPAYER</u>	<u>TYPE OF BUSINESS</u>	<u>TAXABLE VALUE</u>	<u>RANK</u>	<u>PERCENT OF TOTAL TAXABLE VALUE</u>	<u>TAXABLE VALUE</u>	<u>PERCENT OF TOTAL TAXABLE VALUE</u>
INERGY AUTOMOTIVE	MANUFACTURING	20,424,447	1	4.53%		0.00%
INTEVA PRODUCTS, LLC	MANUFACTURING	18,472,800	2	4.10%		0.00%
ANDERSON DEVELOPMENT	MANUFACTURING	17,655,856	3	3.92%	11,964,700	3.67%
SENAFAR INVESTMENTS, LLC	RETAIL	6,583,400	4	1.46%		
SOLVAY AUTOMATIVE, INC.	MANUFACTURING	6,561,100	5	1.46%	29,406,700	1
EQUITY ASSETS MANAGEMENT	RETAIL-MALL	6,212,841	6	1.38%		0.00%
WYATT REAL ESTATE (VENCHURS)	MANUFACTURING	5,872,220	7	1.30%	4,000,700	8
MEIJER INC.	RETAIL	5,797,269	8	1.29%	4,317,700	5
ADRIAN STEEL	MANUFACTURING	4,543,802	9	1.01%	2,849,300	12
BIOLAB, INC.	MANUFACTURING	3,848,900	10	0.85%	2,560,000	13
CONSUMERS ENERGY	UTILITY	3,803,460	11	0.84%	4,317,400	6
CITIZENS GAS & FUEL COMPANY	UTILITY	2,954,535	12	0.66%	4,075,700	7
PEDCOR INVESTMENTS	HOUSING	2,695,000	13	0.60%		1.25%
FISCHER FAMILY TRUST (LOWES)	RETAIL	2,692,810	14	0.60%	3,261,400	11
ADRIAN FABRICATORS	MANUFACTURING	2,511,158	15	0.56%	3,304,100	9
FOUR SEASONS HOUSING ASSOC	HOUSING	2,101,100	16	0.47%		
MINK-FRIENDLY VILLAGE OF ADRIAN	HOUSING	2,068,500	17	0.46%		
TRI-STATE MICHIGAN ASSOCIATES	LODGING	2,048,600	18	0.45%		
HJM DEVELOPMENT, LLC	INSURANCE	2,033,332	19	0.45%		
SIENA HEIGHTS UNIVERSITY	EDUCATION	2,033,141	20	0.45%		
MAPLE WOODS PARTNERS	HOUSING	1,973,800	21	0.44%		
NOB HILL APARTMENTS, LLC	HOUSING	1,961,936	22	0.44%		
ADRIAN PLACE APARTMENTS	HOUSING	1,842,100	23	0.41%		
SAND CREEK APARTMENTS	HOUSING	1,836,900	24	0.41%		
BANK OF LANAWEE	BANKING	1,740,151	25	0.39%		
DELPHI AUTOMOTIVE	MANUFACTURING				17,141,000	2
GREENLAND VISTAS	RETAIL MALL				5,870,000	4
CHARLES A. GREENAN TRUST	RETAIL				3,271,900	10
GARDEN STATE TANNING	MANUFACTURING				2,259,000	14
SIMPLEX	MANUFACTURING				2,160,700	15
TOTAL		\$130,269,158		28.91%	\$98,599,600	30.24%
	TAXABLE VALUE	\$450,599,554			\$326,063,726	

SOURCE: City of Adrian Assessing Office

**CITY OF ADRIAN
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS**

EXHIBIT C-4

FISCAL YEAR	TAXES LEVIED FOR THE FISCAL YEAR	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY		COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
		AMOUNT	PERCENT OF LEVY		AMOUNT	PERCENT OF LEVY
1998-99	5,016,756	4,738,367	94.45%	4,893	4,743,260	94.55%
1999-00	4,962,176	4,822,163	97.18%	19,279	4,841,442	97.57%
2000-01	5,094,237	5,001,594	98.18%	599	5,002,193	98.19%
2001-02	5,210,649	5,129,617	98.44%	5,835	5,135,452	98.56%
2002-03	5,278,776	5,196,857	98.45%	4,113	5,200,970	98.53%
2003-04	6,078,050	5,948,936	97.88%	15,898	5,964,834	98.14%
2004-05	6,260,655	6,028,639	96.29%	42,487	6,071,126	96.97%
2005-06	6,558,928	6,237,099	95.09%	58,634	6,295,733	95.99%
2006-07	7,031,115	6,659,027	94.71%	210,360	6,869,387	97.70%
2007-08	7,324,834	7,258,038	99.09%	39,006	7,297,044	99.62%

Source: City of Adrian Department of Treasury

CITY OF ADRIAN
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

FISCAL YEAR	GENERAL FUND		FIRE STATION BONDS	PARKS & RECREATION		STORM WATER UTILITY BONDS	CONTRACT/ INSTALLMENT PURCHASE CONTRACT*	TOTAL GENERAL OBLIGATION BONDS**	WATER		SEWER		DRINKING		TOTAL PRIMARY GOV'T.	PERCENT OF PERSONAL INCOME		PER CAPITA
	AUTO PARKING BONDS	CONTRACT/ INSTALLMENT PURCHASE CONTRACT*		RECREATION INSTALLMENT PURCHASE AGREEMENTS	WATER SYSTEM REVENUE BONDS #1				WATER SYSTEM REVENUE BONDS #2	SEWER SYSTEM REVENUE BONDS	SEWER REVOLVING FUND LOAN	SEWER REVOLVING FUND LOANS***	DRINKING WATER REVOLVING FUND LOANS***					
1998-99	265,000	300,000	0	68,351	1,260,000	695,000	0	1,260,000	350,000	775,000	0	0	0	0	2,385,000	0.5%	108	
1999-00	230,000	150,000	0	1,035,804	1,005,000	625,000	0	1,005,000	175,000	750,000	0	0	0	0	1,930,000	0.4%	87	
2000-01	190,000	0	0	962,309	1,702,309	550,000	0	1,702,309	0	700,000	0	0	0	0	2,402,309	0.5%	109	
2001-02	150,000	0	0	883,644	1,503,644	470,000	0	1,503,644	0	475,000	0	0	0	0	1,978,644	0.4%	89	
2002-03	100,000	0	0	2,000,391	2,485,391	385,000	0	2,485,391	0	250,000	0	2,946,566	4,850,991	10,532,948	10,532,948	2.2%	474	
2003-04	50,000	0	0	1,810,808	2,155,808	295,000	0	2,155,808	0	0	0	8,920,000	5,665,000	16,740,808	16,740,808	3.5%	754	
2004-05	0	0	0	1,612,360	1,812,360	200,000	0	1,812,360	0	0	0	8,570,000	5,445,000	15,827,360	15,827,360	3.3%	712	
2005-06	0	0	0	884,260	984,260	100,000	0	984,260	0	0	2,983,031	8,215,000	5,220,000	17,402,291	17,402,291	3.6%	783	
2006-07	0	0	0	771,188	771,188	0	0	771,188	0	0	8,496,529	7,850,000	4,985,000	22,102,717	22,102,717	4.6%	995	
2007-08	0	653,900	0	1,203,963	1,857,863	0	0	1,857,863	0	0	8,375,874	7,475,000	9,913,731	27,622,468	27,622,468	6.0%	1,243	

* Land Contract: 250 W. Church St.;

** Includes Installment Purchase for both Marvin Farm and 381 Miles Drive-Parks & Forestry Maint. Bldg.

***Ground Water Source Development and Water Distribution System Improvements

CITY OF ADRIAN
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

FISCAL YEAR	GENERAL FUND													PER CAPITA**
	LAND				PARKS & RECREATION				PERCENT OF TAXABLE VALUE OF PROPERTY*					
	AUTO PARKING BONDS	FIRE STATION BONDS	CONTRACT/ PURCHASE CONTRACT	STORM WATER UTILITY BONDS	RECREATION INSTALLMENT PURCHASE AGREEMENT	TOTAL GENERAL OBLIGATION BONDS								
1998-99	265,000	300,000	0	695,000	0	1,260,000						0.39%	\$57.02	
1999-00	230,000	150,000	0	625,000	0	1,005,000						0.29%	\$45.48	
2000-01	190,000	0	0	550,000	962,309	1,702,309						0.48%	\$77.04	
2001-02	150,000	0	0	470,000	883,644	1,503,644						0.41%	\$67.69	
2002-03	100,000	0	0	385,000	2,000,391	2,485,391						0.65%	\$111.88	
2003-04	50,000	0	0	295,000	1,810,808	2,155,808						0.54%	\$97.04	
2004-05	0	0	0	200,000	1,612,360	1,812,360						0.44%	\$81.58	
2005-06	0	0	0	100,000	884,260	984,260						0.23%	\$44.31	
2006-07	0	0	0	0	771,188	771,188						0.17%	\$34.71	
2007-08	0	0	653,900	0	1,203,963	1,857,863						0.41%	\$83.63	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See Exhibit C-1 for property value data.

** Population data can be found in Exhibit E-1.

**CITY OF ADRIAN
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2007**

EXHIBIT D-3

<u>DEBT OUTSTANDING</u>	<u>ESTIMATED PERCENTAGE APPLICABLE*</u>	<u>ESTIMATED SHARE OF OVERLAPPING DEBT</u>
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**Governmental Unit
Debt Repaid with Property Taxes**

DIRECT DEBT:

General Fund - 153/155 E. Maumee		
Installment Loan Purchase	\$542,000	\$542,000
General Fund - 250 W. Church St.		
Land Contract	111,900	111,900
Parks & Forestry - 381 Miles Dr.		
Installment Loan Purchase	550,000	550,000
Parks & Recreation-Marvin Farm		
Installment Loan Purchase	653,963	653,963
Net Direct Debt	<u>1,857,863</u>	<u>\$1,857,863</u>

OVERLAPPING DEBT:

Adrian Public Schools	\$53,500,000	51.58%	\$27,596,007
Madison School District	1,477,800	33.34%	492,755
Lenawee County	8,470,000	22.64%	1,917,485
Net Overlapping Debt	<u>\$63,447,800</u>		<u>\$30,006,247</u>
Total Direct and Overlapping Debt	<u>\$65,305,663</u>		<u>\$31,864,110</u>

Sources: Taxable Value data used to estimate applicable percentages provided by the Lenawee County Equalization Department.
Debt outstanding provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographical boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Adrian. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and, therefore, responsible for repaying the debt of each overlapping government.

* For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable value that is within the City's boundaries and dividing it by each unit's total taxable value.

CITY OF ADRIAN
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS

Legal Debt Margin Calculation for Fiscal Year FY2007-08	
Taxable Value	\$450,599,846
Debt Limit (10% of Taxable Value)	45,059,985
Debt Applicable to Limit:	
Installment Purchase Agreements	\$1,745,963
Land Contract	111,900
Total Debt Applicable to Limit	1,857,863
Legal Debt Margin	43,202,122

	Fiscal Year									
	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08
Debt Limit	\$31,252,376	\$32,606,373	\$34,115,819	\$35,798,649	\$37,054,750	\$38,356,011	\$41,029,451	\$42,690,402	\$45,072,380	\$45,059,985
Total Debt Applicable to Limit	1,260,000	1,005,000	1,702,309	1,503,644	2,485,391	2,155,808	1,812,360	884,260	771,188	1,857,863
Legal Debt Margin	\$29,992,376	\$31,601,373	\$32,413,510	\$34,295,005	\$34,569,359	\$36,200,203	\$39,217,091	\$41,806,142	\$44,301,192	\$43,202,122

Total Debt Applicable to Limit
as a Percentage of Debt Limit

4.03%

3.08%

4.99%

4.20%

6.71%

5.62%

4.42%

2.07%

1.71%

4.12%

Note: The statutory debt limit of net bonded indebtedness incurred for all public purposes shall not, at any one time, exceed 10% of the State Equalized Valuation of taxable property in the City, except that this limit may be exceeded by 3/8th of one (1%) percent in the case of fire, flood, or other calamity. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds. This limitation does not include bonds issued in anticipation of the payment of special assessments, nor bonds issued pursuant to court order for sewage or garbage disposal system.

The Michigan State Bond Act provides that the total debt in special assessment bonds for which the credit of the City is pledged shall not exceed 12% of the assessed valuation of taxable property of the City, nor shall such bonds be issued in any calendar year in excess of 3% of the assessed valuation of taxable property of the City unless voted.

Source: City Records

CITY OF ADRIAN
PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS

EXHIBIT D-5

FISCAL YEAR	WATER SYSTEM REVENUE BONDS						SEWER SYSTEM REVENUE BONDS					
	UTILITY SERVICE CHARGES	LESS:		NET		COVERAGE	UTILITY SERVICE CHARGES	LESS:		NET		COVERAGE
		OPERATING EXPENSES	AVAILABLE REVENUE	DEBT SERVICE PRINCIPAL	INTEREST			OPERATING EXPENSES	AVAILABLE REVENUE	DEBT SERVICE PRINCIPAL	INTEREST	
1998-99	2,432,835	1,470,451	\$962,384	200,000	56,437	3.75	2,493,407	1,519,952	\$973,455	0	0	0
1999-00	2,475,380	1,659,934	\$815,446	225,000	45,788	3.01	2,599,332	1,721,121	\$878,211	0	0	0
2000-01	2,410,259	1,648,469	\$761,790	962,309	34,200	0.76	2,627,112	1,976,128	\$650,984	0	0	0
2001-02	2,579,797	1,784,152	\$795,645	225,000	20,812	3.24	2,473,320	1,800,137	\$673,183	0	0	0
2002-03	2,737,791	2,363,646	\$374,145	250,000	7,031	1.46	2,275,150	2,011,722	\$263,428	0	0	0
2003-04	2,773,621	2,093,464	\$680,157	0	0		2,543,309	2,142,717	\$400,592	0	0	0
2004-05	2,900,909	2,463,550	\$437,359	220,000	137,453	1.22	2,673,090	2,271,711	\$401,379	350,000	214,310	0.71
2005-06	2,910,661	2,330,251	\$580,410	225,000	131,906	1.63	2,711,762	2,545,247	\$166,515	355,000	207,594	0.30
2006-07	3,273,365	2,387,182	\$886,183	235,000	127,563	2.44	3,461,125	2,605,639	\$855,486	365,000	200,812	1.51
2008-07	3,252,666	2,344,607	\$908,059	240,000	121,625	2.51	3,583,307	2,660,423	\$922,884	765,000	278,485	0.88

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
Operating expenses do not include interest, depreciation, or amortization expenses.

CITY OF ADRIAN
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
EXHIBIT E-1

FISCAL YEAR	POPULATION	PERSONAL INCOME		PER CAPITA PERSONAL INCOME	MEDIAN AGE	SCHOOL ENROLLMENT	UNEMPLOYMENT RATES
		PERSONAL INCOME	PERSONAL INCOME				
1997-98	22,097	\$473,649,195	\$21,435	32.6	4,375	2.0%	
1998-99	22,097	\$473,649,195	\$21,435	32.6	4,279	2.5%	
1999-00	22,097	\$473,649,195	\$21,435	32.6	4,291	2.6%	
2000-01	22,097	\$473,649,195	\$21,435	32.6	4,075	7.8%	
2001-02	22,215	\$479,577,420	\$21,588	31.6	3,980	6.7%	
2002-03	22,215	\$515,388,000	\$23,200	31.6	3,972	8.4%	
2003-04	22,215	\$550,932,000	\$24,800	31.6	3,820	7.8%	
2004-05	22,215	\$550,665,420	\$24,788	31.6	3,786	6.4%	
2005-06	22,215	\$492,573,195	\$22,173	31.6	3,663	6.2%	
2006-07	22,215	\$477,197,467	\$21,481	32.0	3,630	8.5%	
2007-08	22,215	\$463,401,394	\$20,860	32.3	3,670	11.2%	

Sources: Population, Personal Income and Median Age from U.S. Census Bureau; School Enrollments from Adrian Board of Education; Unemployment Rates from Michigan Employment Security Commission.

**CITY OF ADRIAN
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

EXHIBIT E-2

	FY 2007-08		FY 1998-99*	
	<u>EMPLOYEES</u>	<u>RANK</u>	<u>EMPLOYEES</u>	<u>RANK</u>
<u>EMPLOYER</u>				
			<u>PERCENTAGE</u>	<u>PERCENTAGE</u>
			<u>OF TOTAL CITY</u>	<u>OF TOTAL CITY</u>
			<u>EMPLOYMENT</u>	<u>EMPLOYMENT</u>
Lenawee Health Alliance	1,265	1	5.6%	
Lenawee County	550	2	2.4%	
Equity Assets Mgt. (Adrian Mall)	526	3	2.3%	
Adrian Public Schools	461	4	2.0%	
Lenawee Intermediate School District	400	5	1.8%	
Meijer, Inc.	400	6	1.8%	
Adrian Steel Company	370	7	1.6%	
Adrian Dominican Sisters	338	8	1.5%	
Hydro Aluminum	254	9	1.1%	
Adrian College	250	10	1.1%	
Inergy Automotive	200	11	1.1%	
Lenawee Medical Care Facility	200	12	0.6%	
Venchurs Packaging, Inc.	200	13	0.9%	
Siena Heights University	184	14	0.8%	
City of Adrian	165	15	0.7%	
Inteva	160	16	0.7%	
Lenawee Christian Ministeries	156	17	0.7%	
Lowe's of Adrian	138	18	0.6%	
Cargotainer/Adrian Fabricators	100	19	0.4%	
	<u>6,317</u>		<u>28.1%</u>	
Total City Employment	22,500		100.0%	

Source: Lenawee County Chamber of Commerce

*Note: 1998-99 data not available; history will be built.

CITY OF ADRIAN
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

EXHIBIT F-1

<u>FUNCTION/PROGRAM</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>	<u>FY2006-07</u>	<u>FY2006-07</u>
City Administrator	1.8	1.8	1.8	1.8	1.8	1.8	2.0	2.0	2.0	2.0
Finance Department	6.5	6.5	6.5	6.5	6.5	6.5	6.0	6.0	6.0	6.0
City Assessor	1.5	1.5	1.5	1.5	1.5	1.5	1.0	2.0	2.0	2.0
City Clerk	2.0	2.0	2.0	2.0	1.5	1.5	1.0	1.0	2.0	1.0
City Attorney	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	7.0	7.0
Human Resources	0.7	0.7	0.7	1.2	1.2	1.2	1.0	1.0	1.0	1.0
Cemetery	3.5	3.5	3.5	3.5	3.5	3.5	3.0	3.0	3.0	3.0
Community Development	3.0	4.0	5.0	4.5	10.0	10.0	10.0	10.0	4.0	5.0
Public Works/Engineer	15.5	15.5	14.5	14.5	10.5	10.5	13.0	13.0	12.0	12.0
Parks and Recreation	7.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	7.0
Parks and Forestry	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	11.0
Public Library	8.0	8.0	8.0	8.0	8.0	8.0	6.0	6.0	6.0	6.0
Police Department	36.5	39.0	36.0	36.0	36.0	36.0	36.0	37.0	37.0	36.0
Fire Department	20.0	20.0	19.0	19.0	20.0	20.0	21.0	19.0	19.0	19.0
Utilities Department	37.0	38.0	40.0	41.0	40.0	42.0	43.0	41.0	40.0	40.0
Auto Parking Fund	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.0	0.0
Information Technology	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0	2.0
Total	157.5	162.5	160.5	161.5	162.5	164.5	165.0	165.0	163.0	160.0

Source: City Finance Department

Note: Inspection function transferred from Community Development to City Attorney in FY2006-07.

CITY OF ADRIAN
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
EXHIBIT F-2

<u>FUNCTION/PROGRAM</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>	<u>FY2006-07</u>	<u>FY2007-08</u>
Police Department										
Physical Arrests	783	609	789	986	1,010	1,034	1,604	1,779	1,662	1,438
Parking Violations	8,449	9,161	8,450	8,121	8,098	8,190	5,945	2,989	4,437	6,270
Traffic Violations	2,771	2,288	3,200	3,600	3,500	3,964	3,758	3,178	1,864	1,287
Fire Department										
Non-Medical Emergencies							481.0	486	461	459
EMS Rescue Responses							1668.0	1,725	1,736	1,806
Emergency Responses	2,151	2,220	2,163	2,243	1,970	2,156	2,149	2,211	2,197	2,265
Fires Extinguished	101	133	117	85	83	68	63	78	75	48
Refuse Collection										
Refuse Collected (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	6,865	6,586	6,074	6,000	4,231
Recyclables (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	762	875	841	763	514
Public Works										
Street Resurfacing (miles)	3.9	4.0	4.5	3.5	2.9	4.1	3.6	4.9	3.7	2.1
Cold/Hot Patch Repair (tons)	N.A.	N.A.	N.A.	N.A.	236.1	214.7	212.8	164.0	124.5	174.0
Parks and Recreation										
Athletic Field Permits Issued	179	167	161	179	173	173	164	91	110	77
Program Participants	30,868	38,554	37,981	37,249	34,874	35,118	21,710	21,654	18,190	15,962
Public Library										
Materials in Collection	81,335	77,335	79,500	82,301	85,950	89,761	93,741	96,540	96,273	95,461
Circulation of Materials	67,684	73,191	70,619	75,106	77,181	79,313	81,504	75,013	76,895	82,501
Water										
New Connections	58	28	1	41	34	28	13	13	5	6
Water Main Breaks		12	28	33	30	15	16	25	32	38
Average Daily Consumption (thousands of gallons)	3,773	3,785	3,397	3,517	3,613	3,580	3,270	3,156	3,598	3,459
Peak Daily Consumption (thousands of gallons)	5,406	6,070	5,030	5,520	5,620	5,581	5,026	6,690	7,664	4,588
Waste Water										
Average Daily Sewage Treatment (thousands of gallons)	6,954	6,007	5,618	5,742	5,282	5,230	4,932	5,001	5,273	5,776
Transit										
Total Route Miles	150,683	153,349	149,986	161,731	159,491	156,934	162,777	146,413	144,291	144,900
Passengers	88,601	95,900	92,337	95,724	91,657	91,138	94,531	80,244	81,063	81,365
Note: 33% Fare incr. - July '05										

Sources: Various Departments

CITY OF ADRIAN
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS
EXHIBIT F-3

<u>FUNCTION/PROGRAM</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>	<u>FY2005-06</u>	<u>FY2006-07</u>	<u>FY2007-08</u>
Police Department										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Vehicles	14	16	16	16	16	16	16	16	16	18
Motorcycles	0	2	2	4	5	2	2	2	3	2
Fire Department										
Stations	1	1	1	1	1	1	1	1	1	1
Emergency Vehicles	7	7	7	7	7	7	7	7	7	7
Hydrants (Public/Private)	538	559	559	559	633	707	781	855	930	930
Public Works										
Streets (miles)	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	45.9	45.96
Highways (miles)	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	27.1	27.08
Bridges	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Streetslights	874	874	875	875	874	874	874	874	875	876
Traffic Signals	26	26	26	26	26	26	26	26	25	24
Parking Spaces	814	814	814	814	814	814	814	814	814	814
Parks and Recreation										
Acreage	672	672	672	672	672	672	674	674	674	674
Playgrounds	6	6	6	6	6	6	6	6	6	6
Baseball Diamonds	10	10	10	10	10	10	10	10	10	10
Soccer Fields	0	0	0	5	5	5	5	5	5	5
Community Centers	1	1	1	1	1	1	1	1	1	1
Water										
Water Mains (miles)	90.20	91.20	91.20	91.20	91.20	93.00	93.00	93.00	136.00	137.44
Customers	6,651	6,693	6,609	6,473	6,631	6,652	6,652	6,652	6,852	6,432
Storage Capacity	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
(thousands of gallons)										
Average Pumpage	3,300,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,100,000
(gallons/day)										
Waste Water										
Sanitary Sewers (miles)	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	83.26	83.26
Storm Sewers (miles)	50.15	50.15	50.15	50.15	50.15	50.15	50.15	50.15	50.15	50.15
Treatment Capacity	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
(gallons/day)										
Transit										
Minibuses	6	6	6	6	7	7	7	7	7	7

Sources: Various Departments

September 25, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City of Adrian, Michigan's basic financial statements and have issued our report thereon dated September 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Adrian, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Adrian's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Adrian's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Adrian's internal control.

September 25, 2008

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Adrian, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Commission, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

September 25, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
MAJOR PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

COMPLIANCE

We have audited the compliance of the City of Adrian, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Adrian, Michigan's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express an opinion on the City of Adrian, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Adrian, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Adrian, Michigan's compliance with those requirements.

In our opinion, the City of Adrian, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

September 25, 2008

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

INTERNAL CONTROL OVER COMPLIANCE

The management of the City of Adrian, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Adrian, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the City Commission, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

CITY OF ADRIAN, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(AND RELATED STATE EXPENDITURES)**

For the Year Ended June 30, 2008

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity's Identifying Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
U.S. Department of Transportation					
USC Section 5311 Operating Assistance	20.509	2007-0156-Z3	Formula	\$ 55,964	\$
USC Section 5311 Operating Assistance	20.509	2002-0002-Z12	Formula	17,529	
USC Section 5309 Capital	20.500	2002-0002-Z12	48,000	40,849	10,212
USC Section 5311 Capital	20.509	2007-0156-Z2	88,000	85,404	21,351
USC Section 5309 Capital	20.500	2001-0850/A2	375,000	341,135	85,284
USC Section 5309 Capital	20.500	2000-0460/A4	392,519	200,421	50,105
USC Section 5311 Capital	20.509	MI-18-X038	16,000	2,714	
Federal Aid Highway Program -CMAQ	20.205	46400-100221	75,400	3,530	882
U.S. Department of Justice					
Edward Byrne Memorial Justice Assistance Grant	16.738	2007-DJ-BX-0427	12,543	12,121	
Edward Byrne State and Local Law Enforcement Assistance Grant	16.580	2005-DJ-BX-0326	12,779	1,704	
U.S. Environmental Protection					
Brownfield Assessment and Cleanup EPA Funds Passed Thru Michigan DEQ- Capitalization Grants For Clean Water State Revolving Funds	66.818	BF-96562701	400,000	96,903	
EPA Funds Passed Thru Michigan DEQ- Capitalization Grants For Drinking Water State Revolving Funds	66.458	5239-01	2,489,399	53,322	216,023
EPA Funds Passed Thru Michigan DEQ- Capitalization Grants For Drinking Water State Revolving Funds	66.468	7130-01	6,129,498	3,927,719	1,241,012
U.S. Department of Homeland Security					
Assistance to Firefighters	97.044	EMW-2006-FG-09431	35,280	<u>23,913</u>	2,657
Total Expenditures of Federal Awards				<u>\$ 4,863,228</u>	

See independent auditors' report.

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CITY OF ADRIAN, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

* Material weakness(es) identified?

_____ YES X NO

* Reportable condition(s) identified that
are not considered to be material
weaknesses?

_____ YES X NONE REPORTED

Noncompliance material to financial
statements noted?

_____ YES X NO

FEDERAL AWARDS

Internal control over major programs:

* Material weakness(es) identified?

_____ YES X NO

* Reportable condition(s) identified
that are not considered to be
material weaknesses?

_____ YES X NONE REPORTED

Type of auditors' report issued on compliance
for major program:

Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with Section 510(a) of Circular A-133?

_____ YES X NO

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CITY OF ADRIAN, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

IDENTIFICATION OF MAJOR PROGRAM:

<u>CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Name of Federal Program</u>
66.468	7130-01	Drinking Water State Revolving Funds
20.500	2001-0850/A2	USC Section 5309 Capital

Dollar Threshold used to distinguish
between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ YES X NO

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

September 25, 2008

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We appreciate the opportunity to conduct your audit this year. We are writing to you as we complete the audit to communicate any control deficiencies we identified during the audit and whether these deficiencies (if any) are determined to be significant deficiencies or material weaknesses.

In planning and performing our audit of the financial statements of the City of Adrian, Michigan, for period ending June 30, 2008, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of your internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. It is important to note that control deficiencies are not necessarily problems you will choose to address, however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.

Significant Deficiencies

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects your entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal control. During our audit we found one significant deficiencies in internal control.

Materials Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by your internal control. During our audit we found no material weaknesses.

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2008, Statement on Auditing Standards No. 112 titles *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

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Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

Condition

Currently, the City's Finance Department prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

Cause

The Finance Department of the City does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements.

Effect

Utilization of the external auditor in preparing the footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Recommendation

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards No. 112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

In addition, other matters concerning the City and its operation are reported to you in the remainder of this report.

Capital Assets for Internal Service Funds

The City has two internal service funds – the Information Technology Fund and the Fire Department Motor Pool Fund. These funds provide services to other funds of the City. To have a truer picture of what costs these funds are incurring to provide these services, the City should consider capitalizing the capital assets used by the internal service funds, and showing related depreciation as expense in these funds.

Cash Management Procedures – Library

To strengthen internal control procedures in the area of cash, the City should review procedures at the City Library and make revisions for improvement.

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Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

Retirement Plan

The actuarial report on the City's defined benefit pension plan (MERS) as of December 31, 2007 showed the unfunded actuarial accrued liability at \$7,205,491. The unfunded actuarial accrued liability at December 31, 2006 was \$5,872,651. The actual City's contributions to the pension plan was \$1,173,432 for the fiscal year 2007-08 compared to \$816,109 for fiscal year 2006-07.

Financial Condition

The City continues to maintain a good financial position. General Fund's fund balance was \$5,867,914 at June 30, 2008. The undesignated fund balance was \$1,339,725.

The new Downtown City Government Complex and its total projected cost between \$5 to \$6 million dollars will probably affect financial reserves of the City. Currently, the City has designated \$2,250,000 in General Fund's fund balance for this project.

All funds of the City had positive fund balances at June 30, 2008.

Again we appreciate the assistance provided by the City during our audit.

Robertson, Eaton & Owen, P.C.